

Annex D:

Example: Calculation of Annual Allowance in 2015/16 and 2016/17

Pension Input Amount pre-Alignment mini-PIP 2015/16

| | |
|---|------------------------|
| Final Pensionable Pay as at 1 April 2015 | £52,830 |
| Service as at 1 April 2015 | 23 years |
| Accrued pension as at 1 April 2015 | £22,893 |
| | |
| Final Pensionable Pay as at 5 April 2016 | £53,892* |
| Service as at 5 April 2016 | 24 years |
| Accrued pension as at 5 April 2016 | £25,150 |
| | |
| Uprating percentage for 2015/16 AA calculations** | 2.5% |
| Pre-Alignment mini-PIP as proportion of combined PIPs | 26.68% (i.e. 99 / 371) |

Combined Pension Input Amount = $(£25,150 \times 16) - 1.025 \times (£22,893 \times 16)$
= £26,955

Pre-Alignment PIA = $26.68\% \times £26,955$
= £7,192

Post-Alignment PIA = $£26,955 - £7,192$
= £19,763

* Using simplified approach calculating FPP as at 31 March

** As the PIP is longer than 12 months, HMRC have specified that a rate of 2.5% should be used in place of the September 2014 CPI figure of 1.2%.

The Annual Allowance for the pre-Alignment mini-PIP is £80,000. The Annual Allowance for the post-Alignment mini-PIP is £0. However, any unused allowance available from the pre-Alignment mini-PIP (up to a maximum of £40,000, plus any carry forward available from the three years prior to 2015/16) is available instead. In this example, the full £40,000 is carried forward from the pre-Alignment mini-PIP to the post-Alignment mini-PIP.

The unused allowance from the post-Alignment mini-PIP in this example is equal to £20,237 (= £40,000 - £19,763).

2016/17 Carry Forward

The carry forward allowance for 2016/17 can be determined by summing any unused allowance from the previous three years, where for 2015/16 this is any unused allowance from the post-Alignment mini-PIP. The examples below set out the additional calculations required to determine the total carry forward for 2016/17.

Pension Input Amount 2014/15

| | |
|---|----------|
| Final Pensionable Pay as at 1 April 2014 | £51,771 |
| Service as at 1 April 2014 | 22 years |
| Accrued pension as at 1 April 2014 | £20,708 |
| Final Pensionable Pay as at 31 March 2015 | £52,830 |
| Service as at 31 March 2015 | 23 years |
| Accrued pension as at 31 March 2015 | £22,893 |
| Uprating percentage for 2014/15 AA calculations | 2.7% |

$$\begin{aligned} \text{Pension Input Amount} &= (£22,893 \times 16) - 1.027 \times (£20,708 \times 16) \\ &= £26,014 \end{aligned}$$

Pension Input Amount 2013/14

| | |
|---|----------|
| Final Pensionable Pay as at 1 April 2013 | £50,421 |
| Service as at 1 April 2013 | 21 years |
| Accrued pension as at 1 April 2013 | £18,488 |
| Final Pensionable Pay as at 31 March 2014 | £51,771 |
| Service as at 31 March 2014 | 22 years |
| Accrued pension as at 31 March 2014 | £20,708 |
| Uprating percentage for 2013/14 AA calculations | 2.2% |

$$\begin{aligned} \text{Pension Input Amount} &= (£20,708 \times 16) - 1.022 \times (£18,488 \times 16) \\ &= £29,012 \end{aligned}$$

2016/17 carry forward calculation

| | | |
|--|---------------------|------------------|
| Carry forward from 2013/14 | = £50,000 – £29,012 | = £20,988 |
| Carry forward from 2014/15 | = £40,000 – £26,014 | = £13,986 |
| Carry forward from 2015/16 | = £40,000 – £19,763 | = £20,237 |
| <u>Total carry-forward for 2016/17</u> | | <u>= £55,211</u> |

Pension Input Amount 2016/17

| | |
|--|-----------------|
| Final Pensionable Pay as at 6 April 2016 | £53,892* |
| Service as at 6 April 2016 | 24 years 5 days |
| Accrued pension as at 6 April 2016 | £25,174 |

| | |
|--|-----------------|
| Final Pensionable Pay as at 5 April 2017 | £55,005* |
| Service as at 5 April 2017 | 25 years 5 days |
| Accrued pension as at 5 April 2017 | £27,528 |

| | |
|---|----|
| Uprating percentage for 2016/17 AA calculations | 0% |
|---|----|

| | |
|----------------------|--|
| Pension Input Amount | = (£27,528 x 16) – 1.00 x (£25,174 x 16) |
| | = £37,664 |

* Using simplified approach calculating FPP as at 31 March

As the Pension Input Amount is lower than the 2016/17 Annual Allowance of £40,000, no Annual Allowance charge is payable and the difference of £2,336 is carried forward to 2017/18, together with the unused Annual Allowance from 2014/15 and 2015/16.