

Annex E:

Example: Tapered Annual Allowance for 2016/17

Chief Constable XYZ is a member of the 1987 police pension scheme. In addition to his pensionable pay on which he pays contributions at a rate of 15.05%, he receives £10,000 of investment income, and makes charitable donations of £5,000 during the 2016/17 tax year.

Step 1 – Checking Threshold Income

To check if Chief Constable XYZ's Annual Allowance will be tapered, his taxable earnings ('Threshold Income') are compared against a £110,000 limit:

Pensionable pay		£150,000
Non-pensionable pay	+	£0
Other taxable income	+	£10,000
Pension contributions	-	£22,575
Other tax deductible reliefs	-	£5,000
<u>Threshold income</u>		<u>£132,425</u>

As Chief Constable XYZ's Threshold Income is over the £110,000 threshold, his Annual Allowance might be tapered.

Step 2 – Checking Adjusted Income

The next step is to check whether, when added together, the Chief Constable's taxable earnings and the increase in the value of his pension over the year (his 'Pension Input Amount') are greater than a £150,000 limit. The Chief Constable's Annual Allowance pension statement for 2016/17 shows that his pension increased in value by £65,000:

Threshold income		£132,425
Increase in value of pension*	+	£65,000
<u>Adjusted income</u>		<u>£197,425</u>

*This represents the sum of the value of the employee and employer pension contributions over the year.

As the Chief Constable's Adjusted Income is over the £150,000 threshold, his Annual Allowance will be tapered.

Step 3 – Tapering the Annual Allowance

The standard Annual Allowance in 2016/17 is £40,000. This is tapered by £1 for every £2 that the Adjusted Income exceeds £150,000, to a minimum of £10,000. As the Chief Constable's Adjusted Income is £47,425 over the limit his Annual Allowance is tapered by £23,713, to £16,287.

Step 4 – Comparing pension contributions against the Annual Allowance

Chief Constable XYZ's pension statement showed that his pension has increased in value by £65,000 during 2016/17, which is greater than his tapered Annual Allowance of £16,287. The £48,713 difference is the amount by which he has exceeded the Annual Allowance in 2016/17. This amount is potentially subject to an Annual Allowance charge.

Step 5 – Calculating any Annual Allowance charge

However Chief Constable XYZ's Annual Allowance statement also indicates that he has £31,930 of unused Annual Allowance to carry-forward from the previous three tax years. This means that he has unused allowance to partially set off against the £48,713 chargeable amount from 2016/17, reducing his chargeable amount to £16,783. **The Chief Constable's marginal rate of income tax is 40% on this chargeable amount, which results in an Annual Allowance charge of £6,713.**