Pension Tax Self Help Guide – Accessible Version

Armed Forces Pension Scheme (AFPS) Annual Allowance. Pension Savings Statement. A Step-by-Step Guide for Tax Year 2022/23

Contents

Introduction

This guide is designed to take you through the steps necessary to complete all actions on receipt of a pension savings statement. A storyboard version of this brief is also available on the AF REM Page of Defence Connect and defnet, though the storyboard version may not be suitable for those with accessibility requirements.

Why have I received a Pensions Savings Statement for Tax Year 2022/23?

You have received this Pensions Savings Statement (PSS) letter because either:

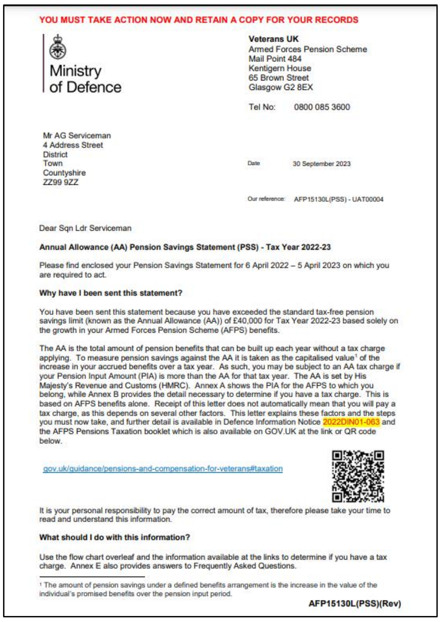
- your Pension Input Amount (PIA) has exceeded Her Majesty's Revenue and Customs (HMRC) governed tax-free savings Annual Allowance (AA) standard limit of £40,000, or
- your threshold income (excluding pension savings) is above £200,000 and Adjusted income (including armed forces pension savings) is above £240,000 for Tax Year 2022/23

Exceeding this limit does not automatically mean that you will pay a tax charge, but you may be liable for a tax charge, depending on several different factors.

Veterans UK are the administrators for all Armed Forces Pension Schemes (AFPS) and this notification letter refers only to your AFPS benefits.

Your letter

All relevant information is contained within the letter. This letter, together with this guide, will assist you in working out whether you are liable for an AA tax charge and details the steps you need to take if you are presented with a pension tax bill.


YOU MUST TAKE ACTION NOW AND RETAIN A COPY FOR YOUR RECORDS

Ministry of Defence

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Mr AG Serviceman
4 Address Street
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Date 30 September 2023

Our reference: AFP15130L(PSS) - UAT00004

Dear Sqn Ldr Serviceman

Annual Allowance (AA) Pension Savings Statement (PSS) - Tax Year 2022-23

Please find enclosed your Pension Savings Statement for 6 April 2022 – 5 April 2023 on which you are required to act.

Why have I been sent this statement?

You have been sent this statement because you have exceeded the standard tax-free pension savings limit (known as the Annual Allowance (AA)) of £40,000 for Tax Year 2022-23 based solely on the growth in your Armed Forces Pension Scheme (AFPS) benefits.

The AA is the total amount of pension benefits that can be built up each year without a tax charge applying. To measure pension savings against the AA it is taken as the capitalised value[1] of the increase in your accrued benefits over a tax year. As such, you may be subject to an AA tax charge if your Pension Input Amount (PIA) is more than the AA for that tax year. The AA is set by His Majesty's Revenue and Customs (HMRC). Annex A shows the PIA for the AFPS to which you belong, while Annex B provides the detail necessary to determine if you have a tax charge. This is based on AFPS benefits alone. Receipt of this letter does not automatically mean that you will pay a tax charge, as this depends on several other factors. This letter explains these factors and the steps you must now take, and further detail is available in Defence Information Notice 2022DIN01-063 and the AFPS Pensions Taxation booklet which is also available on GOV.UK at the link or QR code below.

gov.uk/guidance/pensions-and-compensation-for-veterans#taxation

It is your personal responsibility to pay the correct amount of tax, therefore please take your time to read and understand this information.

What should I do with this information?

Use the flow chart overleaf and the information available at the links to determine if you have a tax charge. Annex E also provides answers to Frequently Asked Questions.

[1] The amount of pension savings under a defined benefits arrangement is the increase in the value of the individual's promised benefits over the pension input period.

AFP15130L(PSS)(Rev)

Please take time to read your letter, especially the FAQs at Annex E. These provide more information on AA and Self Assessment Tax Returns (SATR). Further information can also be found in the associated MOD Tax Booklet

Your letter only refers to your AFPS pension and Armed Forces salary. If you have income and/or pension savings from other sources this also needs to be considered throughout the process.

What do I need to do now?

You need to work out if you are liable for an AA tax charge. Follow the information in Part 1 of this guide, titled, Are you liable for an AA tax charge?

To prepare you will need to access the HMRC Pension AA Calculator . If you are liable for a tax charge you will then need to follow Part 2 of this guide; How to work out your AFPS tax bill.

Part 1: Are you liable for an AA tax charge?

Before starting, ensure you have Annex B to your letter at hand, specifically the information contained within the Pensions Savings table which will contain information as outlined in the table below:

Tax Year	Standard AA Limit	AFPS PIA	Threshold Income- Service pay	Adjusted Income - AFPS & Service pay
2011-12	£50,000	£22,901.07	Not applicable	Not applicable
2012-13	£50,000	£23,729.64	Not applicable	Not applicable
2013-14	£50,000	£55,211.73	Not applicable	Not applicable
2014-15	£50,000	£43,796.54	Not applicable	Not applicable
Between 6 Apr 15 and 8 July 15	£80,000	£9,704.12	Not applicable	Not applicable
Between 9 Jul 15 and 5 Apr 16	Maximum of £40,000 unused AA between 6 Apr 15 and 8 July 15	£26,661.80	Not applicable	Not applicable
2016-17	£40,000	£45,368.02	£101,991.97	£147,359.99
2017-18	£40,000	£46,375.70	£103,831.24	£150,206.94
2018-19	£40,000	£37,944.84	£108,261.74	£146,206.58
2019-20	£40,000	£46,588.19	£110,600.57	£157,188.76
2020-21	£40,000	£97,664.78	£122,701.18	£220,365.96
2021-22	£40,000	£66,783.11	£125,167.47	£191,950.58
2022-23	£40,000	£107,119.65	£75,206.86	£182,405.71

Key to pensions savings table

Tax Year: This shows the tax year figures are relating to.

Standard AA Limit: This shows the AA limit for the related tax year

AFPS PIA: This shows your total AFPS PIA for the relevant tax year. You will need this figure when the calculator asks for pension savings.

Threshold Income - Service Pay: Threshold Income is your total taxable earnings, as shown on your P60. Your letter only shows your Threshold Income for your service pay. You will need this figure, along with any other income you may have, for tax years 2016 onwards.

Adjusted Income – AFPS & Service Pay: This shows adjusted income which is your threshold income plus your AFPS PIA. You will need this figure, along with any other income you may have, for tax years 2016 onwards.

To assess if you are liable to a tax charge carry out the following steps:

1. Open the [HMRC Pension AA Calculator]().

2. On accessing the link, read the information presented to you. Have your PSS to hand plus any additional income/pension information and select the green 'start now' button. A double xx is used in this guide where exact years are not represented.

3. You will be presented with a screen which states: **Select the years you were a member of a registered pension scheme**:

   - select 2022/23 (the current tax year) and all the remaining tax years that are shown in the table in Annex B of your PSS (as a minimum you should select the current tax year and the previous 3 tax years) but should enter all the information to correctly assess your carry forward.
   - do not select tax year 2023/24
   - Once all appropriate tax years are selected click the continue button

4. The next screen will ask, **Have you flexibly accessed your defined contribution pension savings?** select **no** for all AFPS schemes. AFPS schemes are all defined benefit schemes, which do not permit flexible access to pensions savings. If, however, you are a member of any other pension scheme which is a defined contribution schemes, and this applies to you then you must answer **yes** to this question. This guide will continue on the basis of your AFPS savings and you have selected 'no'.

5. The next screen will display one of two questions and that depends on the first year you selected at step 3. It will either state **How much were your pension savings from 6 Apr xx to 5 Apr xx? or Were you a member of a registered pension scheme between 6 April 15 and 8 July 2015?**

6. If prompted to confirm whether you were a member of a registered pension scheme, then select 'yes' if you were in the AFPS.

7. For each screen in the process that asks 'how much were your pension savings from 6 Apr xx to 5 Apr xx? Refer to the table at Annex B in your PSS and enter the amount in the column headed AFPS PIA and the row for the specified tax year. For example, using date from the table above for Tax Year 2016/17 you would input £45,368. When entering PIA information use whole pounds only and always round down.

8. For Tax year 2016/17 onward, you will be prompted with an additional question; for tax years 2016/2017 to 2019/2020 this will be: **Was your threshold income more than £110,000 from 6 Apr xx to 5 Apr xx.** For tax year 2020/2021 onward, the threshold income amount increased to £200,000.

9. This information is contained in the table at Annex B to your PSS under the column headed Threshold Income- Service pay. Answer the question 'yes' or 'no' as appropriate.

10. If you answered yes the next question will be **What is your adjusted income from 6 Apr xx to 5 Apr xx?** Again, using the table provided at Annex B to the PSS, enter the figure from the column Adjusted Income – AFPS & Service Pay.

11. You are reminded that the PSS provided to you by DBS Veterans UK only contains details on your Armed Forces Pay and Pension, if you have other forms of taxable income or a member of another pension scheme, you must declare this information as well.

12. Once you have completed the process you will prompted to c**heck your answers**:

- Carefully check your figures are correctly transposed from the table at Annex B in your PSS
- Make any corrections that are necessary
- Once content the information is accurate press **Calculate**

13. When the results page is displayed look at the row for tax year 6 Apr 22 to 5 Apr 23 and under column **Amount on which tax is due.**

14. If the figure displayed here is £0, then the process is complete and there is no further action on your part. If there is a value greater than £0 in this column then this is not your tax bill but the amount on which tax must be paid, you will need this figure for Part 2: Working out your AFPS pension tax bill.

15. If you have not included pension or income from other sources, you may still be liable for a tax charge, and it remains your responsibility to verify this.

16. If figures appear in columns for previous tax years, it may mean that you have an unpaid tax bill and need to arrange payment. It is recommended that you review your previous tax records and take further action as required.

Part 2: Working out your AFPS pension tax bill

An excess of Annual Allowance (AA) is treated by HMRC as a freestanding tax liability and is added to earnings when calculating tax due.

Therefore, to calculate your AFPS pension tax bill you must add together your salary and the annual allowance excess calculated in Part 1 of this guide. If applicable, you must also include any additional private taxable income to these figures.

Tax is paid at your marginal rate of income tax. For non Scottish rate taxpayers this is calculated at 40% for all earnings up to £150,000. For all earnings over £150,000 tax is calculated at 45%. For Scottish rate taxpayers this is 41% for all earnings over £150,000 and 46% for earnings up to £150,000.

For example, a service person has £35,021 excess pension savings on which an annual allowance charge is due for the 2022/23 tax year. Their income is £120,852, so the excess of AA plus income totals £155,873. The total of £155,873 exceeds the higher rate limit by £5,873 so this would be subject to tax at 45%. The tax due on this would be £2,642.

Subtracting £5,873 from the excess amount of £35,021 leaves £29,148 of the excess pension savings. This amount would be taxable at 40%. The tax due would be £11,659. Therefore, the total annual allowance tax charge for this individual is £14,301 (£11,659 plus £2,642).

If income exceeds £150,000 tax is calculated at 45%.

Once you have calculated your tax charge, you will need to declare this information on your Self-Assessment Tax Return. If you have not registered for a self-assessment tax return, then follow the information in Part 3. If you have registered then you need to follow either:

Part 4a if you complete an online return, or
Part 4b if you complete a paper-based returns.

Part 3: Registering for a Self Assessment Tax Return

To register for Self-Assessment online visit the Government Register for Self Assessment page and follow the instructions.

Once registered you will:

- receive a letter with a 10-digit Unique Taxpayer Reference (UTR).
- be enrolled for the Self-Assessment online service at the same time
- receive a further letter within 10 working days (21 days if you are abroad) with an activation code.

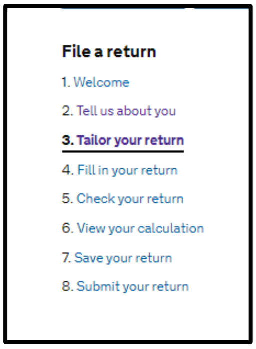
You will need the activation code when you first log in to your online account. You can replace an activation code if you do not receive it or you lose it.

If you encounter any issues with registering for self-assessment, help and support is available from HMRC. DBS Veterans UK cannot assist you with this process.

Part 4a: Completing an online Self Assessment Tax Return

The deadline for submitting an online self assessment tax return is 31 January 2024. All actions outlined in this part should be completed by then. If you have other sources of income, you should seek independent financial advice to assist in completing this tax return.

AA Pension Savings Tax is not pension income. It is vital therefore that it is reported separately in the **Tailor your Return** section of the tax return. This can be found at item 3 of the file a return menu. See image below.



Move to Page 2 of 3 within the Tailor your Return section of the self assessment tax return. The final question on Page 2 states **Are you liable to pension savings tax charges or have you received payments from overseas pension schemes?** You must answer yes to this question. Once you have selected yes continue through the remainder of this section using the screen prompts.

By answering yes, a new section titled **Enter pension savings tax charges etc** will appear on the main check your progress section of your self assessment tax return.

You now need to enter this section and fill in your return using the calculations you have established.
If you are not using scheme pays, which is explained at Annex C of the pension savings statement, the only box you need to complete in this section is **Amount saved towards your pension, in the period covered by this return, in excess of the Annual Allowance**.

In this box you enter the amount on which tax is due. This is the amount calculated by the HMRC Pension AA Calculator at Part 1 of this guide. You can then submit your return and it is your responsibility to settle the tax charge directly with HMRC.

If you are going to use scheme pays, there are 3 boxes you need to complete in this section:

Amount saved towards your pension, in the period covered by this return, in excess of the Annual Allowance. In this box you enter the amount on which tax is due. This is the amount calculated by the HMRC Pension AA Calculator at Part 1 of this guide.

Annual Allowance tax paid or payable by your pension scheme. In this box you enter the tax owed. This is the amount calculated at Part 2 of this guide.

Pension Scheme tax reference number.
Enter one of the following:

Scheme	Reference No
AFPS 15	00817591RA
AFPS 75	00330146RV
AFPS 05	00597994RX
RFPS 05	00716644RW

If you have benefits in both AFPS 15 and a legacy scheme, use only the AFPS 15 reference number.

You can now submit your tax return and move to Part 5.

Guide part 4b: Completing a paper based Self Assessment Tax Return

The deadline for submitting paper based returns is 31 October 2023. All actions outlined in this part should be completed by then. If you have other sources of income, you should seek independent financial advice to assist in completing this tax return.

Annual Allowance Pension Savings Tax is not pension income. It is vital therefore that it is reported separately on the **Additional Information** form SA101. Pension savings tax details are completed on page Ai 4.

You need to complete this section using the calculations you have established in earlier parts of this guide.

If you are not using scheme pays, which is explained at Annex C of the pension savings statement, the only box you need to complete on this form is Box 10, **Amount saved towards your pension, in the period covered by this return, in excess of the Annual Allowance**.

In this box you enter the amount on which tax is due. This is the amount calculated by the HMRC Pension AA Calculator at Part 1 of this guide. You can then submit your return and it is your responsibility to settle the tax charge directly with HMRC.

If you are going to use scheme pays, there are 3 boxes you need to complete in this section:

Box 10, Amount saved towards your pension, in the period covered by this return, in excess of the Annual Allowance. In this box you enter the amount on which tax is due. This is the amount calculated by the HMRC Pension AA Calculator at Part 1 of this guide.

Box 11, Annual Allowance tax paid or payable by your pension scheme. In this box you enter the tax owed. This is the amount calculated at Part 2 of this guide.

Box 12, Pension Scheme tax reference number.
Enter one of the following:

Scheme	Reference No
AFPS 15	00817591RA
AFPS 75	00330146RV
AFPS 05	00597994RX
RFPS 05	00716644RW

If you have benefits in both AFPS 15 and a legacy scheme use only the AFPS 15 reference number.

You can now submit your tax return.

Part 5: How to pay your tax bill

Payment of your tax bill is a personal issue. Read the supporting notes at Annex C to your letter.

The options available to you are:

- Scheme Pays (if bill is less than 45% of the AFPS PIA for the relevant tax year)
- pay HMRC direct
- adjust your tax code
- a combination of the above.

Before you pay HMRC direct you can view detailed information on the paying HMRC website.

Paying HMRC direct may result in a request for an additional payment called 'Payment on Account'. Further details are available from HMRC page pay your self assessment tax bill.

If you wish to adjust your tax code a request must be made directly to HMRC during the normal Self Assessment Tax Return process ***before*** 30 December 2023. This will mean your tax code is adjusted for tax year 2023/24. You can select this option if your tax charges are less than £3,000.

If you wish to use scheme pays you must complete Annex D of your pension savings statement. This requires you to declare the amount of tax you owe that you wish to be paid via the scheme. Use whole pounds only. This must be submitted by 28 February 24.

There are 4 steps to the Scheme Pays process. You must ensure all 4 steps are completed to ensure your final decision is registered and actioned:

Step 1 – complete Form AFP15136L (Annex D to PSS letter)

Step 2 – review Letter AFP15137L (Scheme Pays quote)

Step 3 – complete and return AFPS Form 17 (Scheme Pays final decision)

Step 4 – File Letter AFP15139L (Acknowledgement of decision to use Scheme Pays) or Letter AFP15140L (Acknowledgement of decision NOT to use Scheme Pays). Note: If you elect not to use scheme pays you must settle the tax charge yourself direct with HMRC.

Sources of information to assist you in this process are available from:
Veterans UK helpline 0800 085 3600
Your single service pension representative
Tax on your Private Pension Contributions
Self Assessment Tax Returns
Paying your Self Assessment Tax Bill