

Pension Savings Tax – Annual Allowance and 2015 Pension Remedy

February 2024

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Introduction

Scope of Newsletter

This newsletter outlines:

• The process for those eligible for the 2015 Pension Remedy whose Pension Savings Statement (PSS) was deferred for Tax Year 2022/23 or those who received a PSS for Tax Years between 6 April 2015 and 5 April 2022.

Who is affected?

The information in this document is relevant to both serving and retired personnel. You may be affected by the information in this document if:

- You are eligible for the 2015 Pension Remedy and at anytime between 6 April 2015 and 5 April 2022 you were issued a Pension Savings Statement and subsequently paid a tax charge because of that statement.
- You are an OF3 or above.
- You are an officer commissioned from the ranks with benefits in AFPS 75 and have just reached 5 years' service as an officer.
- You are an OR9 with benefits in the AFPS 75 scheme and have recently reached the 22 years' service pension point.
- You are a Medical or Dental Officer or are paid from another specialist pay spine.

This list is not exhaustive but representative of the most affected cohort.

The Annual Allowance

Annual Allowance: Overview

The AA is the maximum amount of tax-free growth your pension can grow in a tax year. From 6 April 2023, the standard AA increased to £60,000 from its previous limit of £40,000, which had held since 6 April 2016. For tax year 2015/16 the limit was £80,000. You can find historic AA rates for earlier years on the HMRC webpage

https://www.gov.uk/government/publications/rates-and-allowances-pension-schemes/pensionschemes-rates#annual-allowance

The AA affects all UK registered pension schemes. The amount by which the pension pot has increased is known as the Pension Input Amount (PIA) and the PIA calculation must be carried out as required by <u>HMRC Pensions Tax Manual Section PTM053301</u>. The period over which the PIA is measured is the Pension Input Period (PIP). Since 2016 the PIP has been linked to the tax year, which means that for tax year 2023/24 the AA PIP runs from 6 April 2023 to 5 April 2024. There is no limit set on the amount of pension savings that may be accrued during an AA PIP in a registered pension scheme; however, AA does effectively limit the amount of accrual before a potential tax liability is incurred in a defined benefit scheme. The Armed Forces Pension Scheme is a defined benefit scheme, one in which the outcome is fixed (i.e., the member receives a pension based on certain rules).

Tapered Annual Allowance

The tapered AA was introduced in April 2016, it further restricts the amount of tax relief available on pension savings. It only affects members who meet defined incomes. Since 2016 these limits are:

| Tax years | Threshold income limit | Adjusted income limit | Minimum tapered annual allowance |
|---------------------------------|------------------------|-----------------------|-------------------------------------|
| 6 April 2023 to 5 April 2024 | £200,000 | £260,000 | £10,000 |
| 6 April 2020 to 5 April 2023 | £200,000 | £240,000 | £4,000 |
| 6 April 2016 to 5 April | £110,000 | £150,000 | £10,000 |

To assess if you are affected by tapering you will need to establish your threshold income (this is all taxable income from all sources not just salary but excluding pension savings) and adjusted income (all threshold income, plus all pension input amounts) in that tax year. If your adjusted income is over the prescribed limit your AA is reduced.

For every £2 your adjusted income increases above £260,000, your AA limit reduces by £1. The minimum reduced AA has increased to £10,000 for tax year 2023/24 and this applies if your adjusted income exceeds £360,000. Further information is available at https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance.

Negative Pension Input Amounts

Where the opening value of the PIA exceeds the closing value a negative PIA occur. Under existing rules where this occurred the amount was zeroised and treated as a nil sum. A negative amount can occur when the CPI uplift applied to the opening figure results in an amount that is greater than the growth in benefits. The effect of this meant, that where a negative PIA occurred in a legacy scheme it was not offset against any growth in the AFPS 15 scheme.

As announced in the Spring 23 budget, from tax year 2023/24, where such an instance occurs, any negative PIA in the legacy scheme will no longer be zeroised but offset against any growth in AFPS 15. This is subject to a draft amendment to the Finance Act 2004, which is currently under technical consultation. The amendment will not alter the existing provision that the overall total PIA for a public sector scheme cannot be a negative amount and where this occurs it will continue to be set to zero.

Carry Forward

Members who exceed their AA may carry forward any unused AA from the three preceding tax years (subject to them being members of a registered pension scheme from the tax years they wish to carry forward). For example, if a member's PIA for Tax Years 2020/21, 2021/22 and 2022/23 was £30,000 each year, this would give them £10,000 unused allowance each year (the AA for these tax years remains at £40,000). This would mean in tax year 2023/24 the member would have £30,000 to carry forward and use for offsetting against an excess above the AA limit before they would be liable for a tax charge. If tapering applies in the current or any of the three previous tax years, members will need to calculate their tapered AA for each year. Carry forward is used from the earliest year first. The HMRC AA calculator will assess your carry forward.

Members who have exceeded their AA for tax year 2023/24 may incur a tax charge if they do not have enough unused AA available to carry forward from the previous three tax years for offsetting against their excess above their AA limit in 2023/24.

If you are eligible for the 2015 Pension Remedy and a deferred choice member who is issued a PSS for tax year 2023/24, the information provided to you will show the revised PIAs for the remedy period (based on legacy scheme accrual) to allow you to correctly assess your carry forward position for tax year 2023/24. This is not conditional on you completing the revised tax administration framework first, which is explained in the remedy sections of this newsletter.

2015 Pension Remedy and Tax Year 2022/23

Overview

If you are eligible for the 2015 Pension Remedy, the amount of your pension savings (your PIA) may have changed for the remedy period, which is 1 April 2015 to 31 March 2022. This could be because you were either rolled back on 1 October 2023 to your relevant legacy scheme, and as such will have any pensionable service in the remedy period treated as being under your relevant legacy scheme. Or, you have an immediate choice, and an adjustment may be required depending on your circumstances and your remedy election.

Many members affected by rollback will not see any change to their pension tax position, but where an AA tax charge for one or more of the remedy period tax years has been paid an adjustment may be required.

Furthermore, owing to the implementation date of the pension remedy, HMRC deferred the issue of PSSs for tax year 2022/23 for those eligible for remedy who were rolled back into their relevant legacy scheme. Therefore, tax year 2022/23 has been incorporated into a revised tax administration framework, which is delivered through a public service pension adjustment tool. Further details on this are on page 7. This revised framework means there will be no requirement to re-open self-assessment tax returns for tax years 2015/16 to 2022/23 to report pension savings tax adjustments.

Process for Annual Allowance for Tax Year 2022/23 and Retrospective Adjustment for the Remedy Period

For the purposes of the AA, the remedy period is broken down into two periods. The first is outof-scope tax years, which covers the tax years 2015/16 up to and including the tax year 2018/19. Any underpayment of pension savings tax in this period will not be collected, any overpayment will be reimbursed either through direct or indirect compensation. The second is in-scope tax years, which cover tax years 2019/20 up to an including tax year 2022/23. During this period, any underpaid tax, following adjustment, will be required to be paid either through scheme pays or direct to HMRC. Any overpaid tax can be reclaimed through the same method it was originally paid, either direct from HMRC or via an adjustment to scheme pays.

Members will not be required to report or amend any pension savings tax for tax years 2015/16 to 2022/23 through self-assessment. Instead, they will be required to provide information to HMRC and the Scheme Administrator, in a separate format. This revised tax administration framework allows for the self-assessment system to operate as normal for affected members for all other tax purposes and will not impact self-assessment for tax year 2023/24.

If you were a protected member (i.e. moved from your legacy scheme to AFPS 15 for the first time on 1 April 2022) and received a PSS in October 2023, there is no requirement to report tax

year 2022/23 via the public service pension adjustment tool as you should have already reported any AA tax charge through the normal self-assessment tax return process.

This revised tax framework will also apply to lifetime allowance charges that occurred in the period 2015/16 to 2022/23. Further details on this will be included in the revised MOD Pension Tax Booklet planned to be published in Spring 24.

The revised tax administration process requires users to input specific information into a public service pension adjustment tool. This tool assesses whether you owe or are due any tax/compensation for the remedy period and submits the information direct to HMRC via your Government Gateway account. You only need to use this service if you have paid an AA tax charge during the remedy period (either directly or through scheme pays), or you are notified by 6 October 2024 that you exceeded the AA in tax year 2022/23.

If you have previously been issued a PSS during the remedy period, but because of carry forward, never incurred a tax charge, there is no additional action for you take as no tax adjustment is required.

To use the public service pension adjustment tool, you will require:

- Pre and post Rollback PIAs for the remedy period (provided by DBS).
- Details of any tax charge you have paid during the remedy period, either via Scheme Pays or which you directly paid to HMRC (available from your personal tax records).
- Salary and income information from 6 Apr 2016 (provided by DBS for AFPS only).
- A Government Gateway account (available through HMRC website).

This information will be required for any public sector pension scheme you were a member of during the period 6 April 2015 to 5 April 2023.

DBS can only determine if you paid a tax charge if you have used scheme pays. If you have used scheme pays at any point in the remedy period to settle a tax charge you will automatically be provided with revised PIAs for the entire remedy period. If, however, you have never used schemes pays and only ever settled an AA tax charge (because of your Armed Forces Pension) direct to HMRC during the period 6 April 2015 to 5 April 2022 you will need to inform DBS of this.

To that end, DBS will write to all those that have been issued with a PSS during the remedy period and who have not paid an AA tax charge via Scheme Pays. These letters will be issued by the end of February 2024 and will require you to declare if you have paid an AA tax charge directly to HMRC yourself. It is important that you respond to this letter if you did settle an AA charge via direct payment to HMRC, or do not have final confirmation of a scheme pays being used. If you do not receive a letter by April 2024, but know you paid an AA tax charge because of AFPS membership then you should contact DBS.

DBS will recalculate the PIAs for members affected by rollback and provide information as follows:

If you were still in service on or after 1 October 2023 and:

• were an unprotected member who has used scheme pays to pay an AA tax charge at least once during the remedy period and/or declared that you have paid a tax charge direct to HMRC themselves.

were an unprotected member who has not used scheme pays to pay an AA tax charge at least once during the remedy period and/or declared that you have paid a tax charge direct to HMRC but has exceeded the AA or is subject to tapering in tax year 2022/23.

Members in the above groups will be provided with pre and post rollback PIAs, threshold and adjusted income amounts for the period 2010/11 to 2022/23. They will then need to use the public service pension adjustment tool to determine any charge payable for 2022/23 and any adjustments to previous AA tax charges for remedy period years. This information will be provided by 6 October 2024.

If you previously received a PSS during the remedy period but have not used scheme pays or declared an AA tax charge was paid direct to HMRC, and did not exceed AA nor are subject to tapering in 2022/23 then:

• Members in this group will be provided with revised PIAs for the years in which a PSS was previously issued, including relevant carry forward information. This is for information purposes only. No tax adjustment would be required as no AA tax charge has ever been paid.

If you left the Service on or before 30 September 2023 with a pension in payment and have previously been issued a PSS or paid an AA tax charge:

- and were a protected member and you elect for legacy scheme benefits there is no adjustment required to your tax position and no further information will be required.
- If you do not fit the above category, you will be provided the relevant information within 6 months of making your remedy election, or within 6 months of the end of your 12-month election period, whichever is the earlier.

Pension Savings Tax and your 2015 Pension Remedy Choice

Overview

A <u>Remedy Tax Booklet</u> and <u>Remedy Explained Booklet</u> are available on the AFPS <u>gov.uk</u> webpage which contain some additional detail, but briefly, how pension savings tax and your remedy choice relate depends on two things. Firstly, whether you are an immediate or deferred choice member and secondly, whether you were protected (remained in legacy scheme until 1 April 2022).

Immediate Choice – left service on or before 30 September 2023

An immediate choice member, someone who left on or before 30 September 2023 with pension benefits in payment, cannot adjust their tax position until **after** they have made a remedy choice. Once they have made their remedy choice they will, if required, be provided with a remediable PSS within six months of making this choice, or within six months following the end of their election period, whichever is the earlier. This will allow them to use the public service pension adjustment tool to correct their pension savings tax position.

Broadly, the effect for immediate choice members is as follows:

- Protected member chooses legacy: no change to tax position, no further information required.
- Protected member chooses AFPS 15: no additional tax liability but may be owed compensation/refund if AFPS 15 PIA lower in retirement year. Remediable PSS will be issued.
- Unprotected member chooses legacy: PIA recalculated on legacy benefits for remedy period, potential for either tax liability or compensation/refund. Remediable PSS issued.
- Unprotected member chooses AFPS 15: no additional tax liability, but if PIA lower on legacy potential compensation. Remediable PSS issued.

Deferred Choice – leaves anytime on or after 1 October 2023

A deferred choice member, someone who leaves with pension benefits in payment any time after 1 October 2023, can make their remedy choice before they correct their tax position. A remedy choice will not result in an additional AA tax liability. For these individuals, the benefits that have accrued during the remedy period are classed as legacy scheme benefits and the PIA for the remedy period is calculated on that basis. Their remedy choice is not relevant to this approach as PIAs for the remedy period remain under the legacy scheme. These members will all be provided with a remediable PSS by 6 October 2024 to use the public service pension adjustment tool.

When a Deferred Choice member subsequently makes a remedy choice the effect is as follows:

- Protected member chooses legacy: no change to tax position.
- Protected member chooses AFPS 15: no additional tax liability. See additional paragraphs below.
- Unprotected member chooses legacy: No change to tax position.
- Unprotected member chooses AFPS 15: no additional tax liability. See additional paragraphs below.

For deferred choice individuals (those who leave after 1 October 2023) who leave service with a pension in payment prior to correcting their tax position, their choice will not alter how their tax position is to be treated for the remedy period, it will be based on legacy. They will also not face a further AA tax charge directly because of their remedy choice, however, until they have completed the public service pension adjustment tool it will not be possible to adjust any scheme pays debits.

These individuals, as with immediate choice members, will be provided with a Remediable Service Statement (RSS) that shows entitled pension benefits in both legacy and AFPS 15 schemes without any scheme pays debits applied. This allows a fair comparison of pension entitlements under both schemes. Individuals should also note that given the lower accrual rates in the legacy schemes, for the significant majority, it is unlikely a higher pension input amount will result.

For all deferred choice members, if they subsequently choose AFPS 15 benefits, then in the tax year those benefits are taken, the pension opening value will be calculated using legacy benefits. The closing value will be the lower of the value of the legacy scheme rights and AFPS 15 scheme rights, if this exceeds the AA (currently £60,000) a PSS would be issued for that tax year.

What Next?

If you think you are affected

There is no immediate action to take, you will be provided with a PSS in the timescales set out in this fact sheet. If, however, you have paid an Annual Allowance tax charge as a direct result of your Armed Forces pension but did not use scheme pays you need to let DBS know by responding to the letter you will be sent.

Ensure you can access your government gateway account; you will need this to complete the tax administration framework.

Anyone who may expect to receive a PSS are to ensure that their Residence at Work address is kept up to date on JPA. For those who have left the Service if your address has changed since submitting your Pension Form 1 you should contact DBS to update your details. Any addresses recorded should be one that individuals have regular access to for the purposes of receiving mail, noting that DBS are unable to send out PSS letters electronically. For those still serving, additional detail on contact information is included in 2024DIN01-008.

Deferred choice individuals who believe they are affected by Pension Savings Tax and have not received a PSS by the end of November 2024 are advised to contact DBS. For, immediate choice members, if you believe you are affected and have not received a PSS within 6 months of making your remedy choice, you should contact DBS.

Timing and deadlines

Deadlines for those eligible for the 2015 Pension Remedy and using the public service pension adjustment tool to report any additional tax charges for tax years 2019/20 to 2022/23 are:

- 31 January 2025 for those who were in service on or after 1 October 2023.
- 31 January 2027 for those who left service on or before 30 September 2023.

Further details on reporting timelines for those required to make AA tax charge adjustments because of the 2015 Pension Remedy is available at <u>https://www.gov.uk/guidance/changes-in-your-annual-allowance-following-the-public-service-pensions-remedy.</u>

Further Information

User Guides

Step by step guides for Pension Savings Tax for use of the public service pension adjustment tool will be made available by June 2024. A guide will also be made available setting out actions to be taken for tax year 2023/24.

The current pension savings tax booklet will be updated to cover both the standard AA process and the remedy adjustments. It will also provide an update on the Lifetime Allowance pending the enactment of the Finance Bill 2023/24. This will be published by June 2024.

A 2015 Pension Remedy tax guide is available now. This guide broadly outlines how tax will be adjusted, in and out of scope tax years, and how remedy will impact pension savings tax. https://assets.publishing.service.gov.uk/media/64f8400aa78c5f000d887160/2015_Remedy_Tax pdf

All guidance and information related to tax will be made available at https://www.gov.uk/guidance/pensions-and-compensation-for-veterans#taxation

Whilst personnel will still be able seek guidance from DBS, whose details are below, the information provided is expected to reduce the need to contact them.

Contact Details

DBS Armed Forces Pension Scheme Mail Point 484 Kentigern House 65 Brown Street Glasgow, G2 8EX

Website (www): https://www.gov.uk/government/organisations/veterans-uk

Email Address: DBS-JPAC@dbspv.mod.uk

Tel (Civ): 0800 085 3600

Tel (Mil): 94560 3600 Tel (from overseas): 00 141 224 3600