Armed Forces Pension Scheme

Pension Savings Tax Booklet

Guide to the Annual Allowance for Tax Year 2025/2026

Contents

Introduction

Pension savings tax is a complicated subject. This guide is designed to aid in understanding the topic and provide information should you be affected by it.

The guide covers:

- What the Annual Allowance is and how it is calculated for Armed Forces pensions.
- Who is most likely to be affected.
- How to read your Pension Savings Statement (PSS).
- What to do if you go over the limit, including how to calculate and pay any tax owed.

The guide also explains key terms, gives worked examples, and signposts you to official resources from HMRC and the Ministry of Defence.

Important Points to Note:

1. **Your Responsibility:** Managing your tax is your personal responsibility. The Armed Forces Pension Scheme (AFPS) cannot calculate your tax liability for you.

2. **Seek Advice:** If you are concerned about how the Annual Allowance affects your pension, use this guide which also signposts various resources for you.

3. **Guide Purpose:** This booklet is a general guide to the Annual Allowance for Tax Year 2025/26, with a focus on the Armed Forces Pension Scheme. It does not replace official HMRC guidance on pension savings tax or Self Assessment. It does not cover 2015 Pension Remedy tax adjustment cases; if you have received a Remediable Pension Savings Statement or need to calculate a public service pension adjustment, you should follow the relevant HMRC and MOD remedy guidance.

4. **More Information:** You will find a list of frequently asked questions and where to get more details at the end of this guide.

This booklet is for information only. It is not financial advice and cannot replace professional guidance. If you think you may be affected by the Annual Allowance, you should seek help from HMRC or an independent financial adviser.

What is the Annual Allowance (AA)?

1. The Annual Allowance (AA) is the limit set by HMRC on how much your pension benefits can grow in value each tax year before a tax charge may apply. It was introduced as part of HMRC legislation on 6 April 2006. For most members, the standard AA is currently £60,000. Members with high incomes may be subject to a tapered annual allowance (see para 6), which can reduce this standard £60,000 allowance depending on the level of income. The AA applies to the total growth across all the pension schemes you belong to, not just your Armed Forces pension, although your State Pension does not count towards it.

What if my pension growth exceeds the annual allowance?

2. If your AFPS pension growth in a tax year is more than £60,000, the AFPS is required to issue you with a Pension Savings Statement (PSS). This is normally sent by 6 October following the end of the relevant tax year, which for tax year 2025/26 is 6 October 2026. Receiving a statement does not automatically mean you owe tax; it simply means your AFPS growth has exceeded the standard allowance and needs to be considered against prior tax years and other factors such as income.

Who is most likely to be affected?

3. Only a small number of Service personnel will exceed the £60,000 limit based solely on their Armed Forces pension. However, everyone should understand the topic, especially if they have other financial interests such as private pensions or rental income.

4. Those most likely to exceed the Annual Allowance based on AFPS pension growth alone include:

- Officers (OF) at OF4 rank and above, particularly if promoted in the last 2-3 years.
- OF5 rank and above.
- Medical and Dental Officers on special pay scales.
- Personnel with higher pensionable pay, such as Aircrew.

5. Most Other Ranks (OR) are unlikely to be affected, although a small number on older pension schemes (legacy schemes) who have reached their Immediate Pension Point, or those on bespoke pay spines (APS, nurses, divers, etc.), might exceed the limit.

Tapered Annual Allowance

6. Your standard Annual Allowance can be reduced (or "tapered") if your income goes above certain limits. This happens if:

- Your "threshold income" (most taxable income, excluding pension savings) is over £200,000,

  AND

- Your "adjusted income" (threshold income plus pension savings/PIA) is over £260,000.

If both limits are exceeded, your AA is reduced by £1 for every £2 your adjusted income is over £260,000. The maximum reduction is £50,000, meaning your AA can be as low as £10,000 if your adjusted income is more than £360,000.

Pension Savings Statements (PSS)

7. If your AFPS pension growth exceeds the AA, or if your Armed Forces salary suggests you might be subject to the tapered allowance, a PSS will be issued to you.

8. If you are issued a PSS, do not ignore it. It is important for you to check if you have a tax liability.

9. DBS only manages AFPS benefits and Service income. If you have additional personal pensions or income that could lead to an AA tax charge, you may wish to seek specialist advice from a tax adviser.

10. If you have other pensions or income sources, you might need to request a PIA from DBS but should only do so if you believe you are at risk of exceeding the AA. You can request a PIA via the JPAC Enquiry Centre. If you request it before 6 July following the end of the tax year, you will receive the information by 6 October; otherwise, it will be provided within three months of the request date.

11. The PSS is the sole document for assessing tax charge liability. Do not use your Benefit Information Statement (BIS), Pension Forecast (AFPS Form 12), or Remediable Service Statement to assess any AA tax liability, as they are not designed for this purpose. Conversely, your PSS (or PIA) is not a pension forecast.

What is in your Pension Savings Statement (PSS)?

Your PSS will show:

1. **Personal Details:** Your service information and pension scheme.

Personal Details

Service Number	UAT00001	**Rank**	OF4
Name	ServicePerson, A N		
Scheme/Type	AFPS15 with Accrued Rights in Legacy AFPS75		

2. **Opening Value:** The value of your AFPS pension pot at the start of the tax year (6 April), adjusted for inflation (CPI).

The total value of your pension pot at 6 April 2025	
£10,177.26 (AFPS15 pension) x 16 + 1.7% CPI	= **£165,604.37**
plus	plus
£75,346.58 (AFPS75 pension) x 16 + £226,039.74 (AFPS75 lump sum) + 1.7% CPI	**£1,455,921.97**

3. **Closing Value:** The value of your AFPS pension pot at the end of the tax year (5 April).

The total value of your pension pot at 5 April 2026	
£14,168.99 (AFPS15 pension) x 16	= **£226,703.84**
plus	plus
£80,620.84 (AFPS75 pension) x 16 + £241,862.52 (AFPS75 lump sum)	**£1,531,795.97**

4. **Pension Input Amount (PIA):** The growth of your AFPS pension benefits over the year. If you have benefits in more than one AFPS scheme (like AFPS 75 and AFPS 15), the PIAs from each scheme are added together for your total AFPS PIA.

Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2025-26		
AFPS15 PIA	£226,703.84 - £165,604.37	= **£61,099.47**
plus		plus
AFPS75 PIA	£1,531,795.97 - £1,455,921.97	= **£75,874.01**
Total AFPS Pension Input Amount	**= £61,099.47 + £75,874.01**	**= £136,973.48**

5. **Prior and Relevant Tax Years Information:** Unused Annual Allowance from the three previous tax years can be used to offset a current year's tax charge. Your statement will show your PIAs, standard AA, and income details for these past years as well as the current tax year.

Tax Year	Standard AA Limit	AFPS PIA	Threshold Income – Service pay	Adjusted Income – AFPS & Service pay
2017-18	£40,000	£28,888.85	£85,354.14	£114,242.99
2018-19	£40,000	£1,250.31	£95,980.50	£97,230.81
2019-20	£40,000	£26,572.77	£98,864.12	£125,436.89
2020-21	£40,000	£84,587.77	£105,691.87	£190,279.64
2021-22	£40,000	£57,358.08	£110,974.26	£168,332.34
2022-23	£40,000	£76,063.82	£125,900.41	£201,964.23
2023-24	£60,000	£141,533.43	£123,698.85	£265,232.28
2024-25	£60,000	£232,672.27	£167,145.51	£399,817.78
2025-26	£60,000	£136,973.48	£137,117.86	£274,091.34

How Your Pension Input Amount (PIA) is Calculated

12. The PIA is the net increase in your pension pot's value between 6 April and 5 April, the start and end of the tax year.

13. The PIA is calculated as follows:

Opening Value (6 April)

- Your pension benefits from all AFPS schemes in which you have rights.
- This pension amount is multiplied by 16 (a factor set by the Finance Act).
- If you have benefits in legacy schemes (like AFPS 75 or 05), the automatic lump sum is included.
- This total is then increased by the Consumer Price Index (CPI) figure from the September before the start of the relevant tax year; for tax year 2025/26, this will be the September 2024 CPI rate.

Closing Value (5 April)

- Your pension benefits from all AFPS schemes calculated up to 5 April.
- This pension amount is multiplied by 16.
- If you have benefits in a legacy scheme, your automatic lump sum is added.

PIA Calculation

- The opening value (uplifted by CPI) is subtracted from the closing value to provide your PIA (as shown at Bullet 4 in Figure 1).
- If your calculated PIA exceeds £60,000, you may face an AA tax charge.

Illustrative Examples:

PIA Example 1 (Exceeding AA): A member of AFPS15 with Accrued Rights in Legacy AFPS75, and who exceeds the £60k AA limit for TY 2025/26.

The total value of the pension pot on 6 April 2025	
£10,177.26 (AFPS15 pension) x 16 + 1.7% CPI	= £165,604.37
Plus	plus
£75,346.58 (AFPS75 pension) x 16 + £226,039.74 (AFPS75 lump sum) + 1.7% CPI	= £1,455,921.97
The total value of the pension pot on 5 April 2026	
£14,168.99 (AFPS15 pension) x 16	= £226,703.84
Plus	plus
£80,620.84 (AFPS75 pension) x 16 + £241,862.52 (AFPS75 lump sum)	=£1,531,795.97
Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2025/26	
AFPS 15 PIA £226,703.84 - £165,604.37	=£61,099.47
Plus	plus
AFPS 75 PIA £1,531,795.97 - £1,455,921.97	= £75,874.01
AFPS PIA = £61,099.47 + £75,874.01	**=£136,973.48**

PIA Example 2 (Tapered AA): A member of AFPS15 with Accrued Rights in Legacy AFPS75 does not exceed their £60k AA limit for TY 2025/26. However, their service income (£202,163) is above the £200,000 threshold, and their adjusted income (£262,132.99) is above the £260,000 limit. Since both income limits are exceeded, this member will be subject to a tapered AA.

The total value of the pension pot on 6 April 2025	
£7,519.75 (AFPS15 pension) x 16 + 1.7% CPI	= £122,361.37
Plus	plus
£38,556.03 (AFPS75 pension) x 16 + £115,668.09 (AFPS75 lump sum) + 1.7% CPI	= £745,018.17
The total value of the pension pot on 5 April 2026	
£8,969.09 (AFPS15 pension) x 16	= £143,505.44
Plus	plus
£41,254.95 (AFPS75 pension) x 16 + £123,764.86 (AFPS75 lump sum)	= £783,844.09
Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2025/26	
AFPS 15 PIA £143,505.44 - £122,361.37	=£21,144.07
Plus	plus
AFPS 75 PIA £783,844.09 - £745,018.17	= £38,825.92
AFPS PIA = £21,144.07 + £38,825.92	**= £59,969.99**

Tax Year	Standard AA Limit	AFPS PIA	Threshold Income – Service Pay	Adjusted Income – AFPS & Service Pay
2025/26	£60,000	**£59,969.99**	£202,163.00	£262,132.99

PIA Example 3 (Negative PIA): Occasionally the opening value of your pension can be higher than the closing value, resulting in a "negative PIA." One reason this happens is if inflation (CPI) causes the opening value to grow more than your pension benefits. Since the 2023/24 tax year, a negative PIA in a legacy scheme can offset any growth in your AFPS 15 pension, the reverse does not apply. Additionally, the overall PIA for a public sector scheme cannot be negative; if the overall PIA (from all schemes) is calculated to be negative, then it is set to zero. See the example below which uses 2024/25 figures for illustration only. The example shows a negative PIA in AFPS 75 that offsets growth in AFPS 15, thus reducing the overall PIA below the standard AA.

The total value of the pension pot on 6 April 2024	
£6,185.53 (AFPS15 pension) x 16 + 6.7% CPI	= £105,599.37
Plus	plus
£61,961.70 (AFPS75 pension) x 16 + £185,885.10 (AFPS75 lump sum) + 6.7% CPI	= £1,256,149.54
The total value of the pension pot on 5 April 2025	
£9,142.96 (AFPS15 pension) x 16	= £146,287.42
Plus	plus
£65,059.79 (AFPS75 pension) x 16 + £195,179.36 (AFPS75 lump sum)	=£1,236,135.92
Pension Input Amount (PIA) for all AFPS benefits for Tax Year 2024/25	
AFPS 15 PIA £146,287.42 - £105,599.37	=£40,688.05
Plus	plus
AFPS 75 PIA £1,236,135.92 - £1,256,149.54	= (-£20,013.63)
AFPS PIA = £40,688.05 + (-£20,013.63)	**=£20,674.42**

CPI and AA Rates

14. The current and historic CPI rates used in PIA calculations are shown below.

Tax Year	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**
CPI Rate	1%	3%	2.40%	1.70%	0.5%	3.1%	10.1%	6.7%	1.7%

Carry Forward of Unused Annual Allowance

15. When pension savings in a tax year exceed the annual allowance (AA), carry forward lets you use unused AA from the three previous tax years to avoid a tax charge. The key rules are:

- You must have been a member of a registered pension scheme in each year you carry from (AFPS membership satisfies this).
- Your pension savings in the current year must not exceed your earnings.
- Unused allowance is used oldest year first.
- The current year's AA (£60,000) is always used first; carry forward only covers what remains above that.

In the example shown in the table below, the member has £24,000 of excess savings in 2025/26. That excess is cleared by first using the £18,000 unused from 2022/23 (when the AA was still £40,000), then drawing on £6,000 from 2023/24. This means no AA charge arises.

Tax year	Annual Allowance	Pension savings (assumed)	Unused allowance
2022/23 *(oldest year used first)*	£40,000	£22,000	£18,000
2023/24	£60,000	£54,000	£6,000
2024/25	£60,000	£55,000	£5,000
Total carry forward available			**£29,000**
2025/26 (current year)	£60,000	£84,000	−£24,000 excess
Carry forward needed to cover excess (oldest years used first)			£24,000

16. Your PSS will provide the necessary AFPS information for previous tax years. However, if you have other pensions or income, you will need to add those details to get a complete picture. The HMRC AA calculator can help you work out your carried forward position.

HMRC Annual Allowance Calculator

17. Once you receive your PSS, you should use the HMRC Annual Allowance calculator. The HMRC calculator will help you determine:

- If a reduced AA limit applies due to tapering, and by how much.
- Any unused AA you can carry forward from previous years.
- If you have an amount on which tax is owed. (Note: This is not the final tax amount you pay).

The Pension Savings tax section of the AFPS gov.uk webpage has a step-by-step guide to assist you in using the HMRC calculator.

How to Calculate the Tax Payable

18. If the HMRC calculator shows you have an amount on which tax is owed, you need to work out the actual tax charge. This is achieved by adding your excess pension savings to your other taxable income for the year and then applying tax rates to the combined total. The rate (or rates) that apply depend on where your income and excess pension savings

fall across the tax bands. Tax bands differ for Scottish taxpayers. Always check the current bands on the HMRC website [https://www.gov.uk/income-tax-rates] before calculating any charge.

19. In outline, the tax is worked out as follows:

- Take your taxable income for the year after any personal allowance; this is sometimes called your "reduced net income".
- Add your excess pension savings (the amount the carry forward calculator shows tax is owed on) to this figure.
- Working from the top down, any part of this combined total that falls above the additional rate threshold (£125,140 for 2025/26) is taxed at 45%.
- Any remaining excess pension savings that fall between the basic rate limit and the additional rate threshold (£125,140) are taxed at 40%.
- Any remaining excess pension savings below the basic rate limit are taxed at 20%.

20. In practice, because your salary normally already uses up the basic rate band, most members will find their excess pension savings are taxed at 40%, 45%, or a mix of both. The worked examples below show this.

Calculate Tax Example 1

Your salary is £98,000, with no other income. The carry forward calculator shows excess pension savings of £26,860 on which tax is owed.

Salary:	£98,000
Excess AA:	£26,860
Total for tax calculation:	£124,860

Since £124,860 is below the additional rate threshold of £125,140, none of the excess falls into the 45% band. The full £26,860 is therefore taxed at the Higher Rate of 40%, giving a tax charge of £10,744.

Calculate Tax Example 2

Using the same excess pension savings, but with a higher salary of £125,000.

Salary:	£125,000
Excess AA:	£26,860
Total for tax calculation:	£151,860

In this scenario, the total exceeds the additional rate threshold of £125,140 by £26,720. That part of the excess pension savings is taxed at 45%; the remaining £140 falls below the threshold and is taxed at 40%.

£26,720 taxed at 45%	= £12,024
£140 taxed at 40%	= £56
Total tax owed:	= £12,080

The AFPS Step-by-Step Guide and HMRC's pensions tax manual (PTM056110) provide more detail on calculating tax charges, including the additional steps that apply for Scottish taxpayers, where up to four rates (20%, 21%, 41% and 46%) can apply.

How to Pay a Tax Charge

21. You are personally responsible for reporting and paying any tax you owe. This is done through a Self Assessment tax return. These can be completed as a paper or online return. The deadline for paper returns is 31 October, and the deadline for online returns is 31 January after the end of the tax year for which the charge occurred. Further details on Self Assessment can be found on the HMRC website.

22. To pay a tax charge you have the following options:

- **Scheme Pays**:
  The pension scheme can pay the tax charge on your behalf. This will permanently reduce your pension benefits. You *must* inform the scheme if you choose this option. See the "Scheme Pays" section below for more details.

- **Pay Directly**:
  You can pay the tax charge yourself directly to HMRC via Self Assessment.

- **Tax Code Adjustment**:
  HMRC can collect the tax by adjusting your PAYE (Pay as You Earn) tax code, but only if:
  - The total tax owed is less than £3,000.
  - You already pay tax through PAYE (which you do if you receive AFPS salary or pension).
  - You submitted your paper tax return by 31 October or your online return by 30 December.
  - If these conditions are met and you have not declared another payment method, HMRC will automatically adjust your tax code.

- **Combination**:
  You can use a mix of Scheme Pays and direct payment (but not PAYE).

Scheme Pays Explained

23. Scheme Pays is an optional way for your pension scheme to pay your Annual Allowance tax charge for you. Key elements of this mechanism are:

- **Limits:** The maximum amount the AFPS can pay via Scheme Pays is limited to 45% of your AFPS Pension Input Amount (PIA) for that tax year. There is no minimum amount.
- **AFPS Charges Only:** The AFPS can only pay tax charges related to your AFPS pension. If you incur a tax charge from another pension scheme, you must arrange payment with that scheme's provider or settle that tax liability directly with HMRC via your Self-Assessment Tax Return.
- **Permanent Reduction:** If you choose Scheme Pays, your pension benefits will be permanently reduced when you start receiving them. This reduction cannot be reversed.
- **No Impact on EDP:** Early Departure Payments (EDP) under AFPS 05 and AFPS 15 are not affected by Scheme Pays.

- **When Reduction Applies:** The reduction is not applied until you start receiving your pension.
- **Multiple Schemes:** If your PIA comes from a combination of AFPS schemes (e.g., AFPS 75 and AFPS 15), the tax charge is split proportionally between those schemes.
- **Dependants' Benefits:** Scheme Pays does not affect benefits payable to your dependants after your death.
- **Calculation:** Initially, the reduction is estimated based on you receiving your pension at age 65. This will be adjusted when your pension starts, based on your actual retirement age. If you retire earlier than 65, the reduction will be lower; if later, it will be higher. Tables used for these calculations are available online at the GAD Factor Hub.
- **When to Use:** You can usually elect for Scheme Pays while still serving, but it can also be used for charges incurred in your AFPS scheme after leaving service.
- **Informing HMRC and the Scheme:** If you plan to use Scheme Pays, you must declare this on your Self Assessment tax return by the deadline and instruct AFPS to make the payment. There are specific steps to this:

    - **Step 1:** If you want a quote, complete Form AFP15136L (Annex D in your PSS). If you do not require a quote move to Step 3.
    - **Step 2:** Review the quote (AFP15137L).
    - **Step 3:** If you decide to proceed with scheme pays, submit AFPS Form 17 (Scheme Pays final decision) by 31 July. This form is available in digital format on MODNET and under Forms on the AFPS page on gov.uk.
    - **Step 4:** Receive confirmation (AFP15139L).

- **No Obligation:** Requesting a quote does not obligate you to use Scheme Pays nor is it an instruction to the scheme to proceed. If you apply for and receive a quote but do not contact the scheme again, the scheme will not follow up with you.
- **Multiple Charges:** You can use Scheme Pays multiple times throughout your career, and you can choose different payment methods for different tax charges.

24. Carefully consider which payment method is best for your financial situation. Seek independent financial advice if needed, as the MOD cannot advise you on this decision.

Important: If you elect for Scheme Pays, you must not assume it is complete until you receive final confirmation from DBS (AFP15139L). Even when using Scheme Pays, you retain personal responsibility for ensuring the tax charge has been paid.

Pension Sharing on Divorce (PSOD)

25. Pension sharing on divorce can affect the AA. A pension debit from a Pension Sharing Order (PSO) is ignored in the year it is applied. The reduced pension does, however, form the baseline for the following tax year's pension input period. Additionally, members should be aware of:

- **Revaluation:** For members of AFPS 75, AFPS 05, and AFPS 15, if a PSO was put in place before reaching the Immediate Pension Point (IPP) (16 years for AFPS 75, age 55 for AFPS 05, age 60 for AFPS 15), the pension debit will be revalued on reaching the IPP. This will affect the AA growth calculation.

- **Pension Remedy Impact:** Due to the pension remedy, some eligible members who had a PSO during the remedy period (1 April 2015 to 31 March 2022) or started their divorce before 1 October 2023, might need a recalculation of their pension debit. This might cause delays in calculating an accurate PIA. Those affected for prior tax years have been contacted.
- **More Information:** Details on the pension remedy and divorce are available in the remedy explained booklet and the Divorce section of the AFPS gov.uk website.

Specific Adjustments to Pension Values

26. Certain events can lead to adjustments in the opening and closing values used for your AA calculations. DBS will make these adjustments, and they will be reflected in your PIA and PSS. These include:

- **Additional Voluntary Contributions (AVCs):** If you bought extra benefits or added years in a legacy scheme, this increase will be included in your AA calculations.
- **Added Pension:** For AFPS 15, if you have purchased added pension, the actual amount of extra pension you bought (not your contribution amount) is included.
- **Pension Supplements:** For AFPS 75 members, daily supplements (for divers, aviators, and medical and dental officers, etc.) are included in your AA calculations. These are based on your reckonable service and the daily supplement rate for the rank you currently hold.

Tax Implications of Purchasing Added Pension

27. If you are considering purchasing added pension, or have already done so, be aware of the following:

- **Salary Deductions:** If Added Pension contributions are taken from your salary, they are deducted before income tax is calculated.
- **Lump Sum Payments:** If you pay for Added Pension with a lump sum, you usually need to reclaim the income tax you paid on it via your tax return.
- **AA Calculation:** Remember, it is the *amount of Added Pension purchased*, not your contribution amount, which counts towards the AA. Similarly, any pension enhancement from AVCs purchased due to the 2015 Pension Remedy will count towards your AA.
- **Manage Your Tax:** You are responsible for your own tax affairs. It is highly recommended to seek independent financial advice before entering any added pension contract.
- **Cancelling Added Pension/AVCs:** Be aware of the implications of cancelling these, as outlined in the declaration you signed.

Important Information for Self-Assessment Returns

28. If you owe an AA tax charge, you must complete a Self-Assessment tax return. You might need the following details:

- **Employer Ref:** 948/02/WZ82056
- **Unique Taxpayer Reference (UTR):** You will need to apply for this if you have not completed Self Assessment before. It can take up to 10 working days, and an activation

code for Self Assessment takes 7 working days. You can register at gov.uk/register-for-Self-Assessment.

- **Pension Scheme Tax Reference Number:** 00817591RA

29. If you are unsure about your tax liability, do not delay submitting your tax return. You can amend it up to 12 months after the Self Assessment deadline. See HMRC guidance at gov.uk/Self-Assessment-tax-returns/corrections.

Further Information

30. Annual allowance rules are complex, and how they apply will depend on your individual circumstances, including your earnings and membership of any other pension scheme. Further information is available from the links below. Members are strongly encouraged to seek independent financial advice if they are concerned about their annual allowance position or potential tax charges.

Useful Websites/Links

Annual Allowance Overview:

Tax on your private pension contributions: Annual allowance - GOV.UK

PTM051100 - Annual allowance: essential principles - HMRC internal manual - GOV.UK

Tapered Annual Allowance:

PTM057100 - Annual allowance: tapered annual allowance - HMRC internal manual - GOV.UK

Pension Savings Statements:

PTM167100 - Information and administration: other information requirements for scheme administrators: pension savings statements provided automatically to the member - HMRC internal manual - GOV.UK

Defined Benefit Schemes PIA Calculation:

PTM053300 - Annual allowance: pension input amounts: defined benefits arrangements: contents - HMRC internal manual - GOV.UK

Self-Assessment Tax Returns:

Self Assessment - GOV.UK

AFPS Information

Armed forces pensions - GOV.UK

Contacts

- **DBS UK Pensions Tax Team:** Mail Point 484, Kentigern House, 65 Brown St, Glasgow, G2 8EX or DBS-JPAC@DBSPV.MOD.UK

Disclaimer: *This guide is for reference only and does not replace legal or HMRC policy guidance. It is not financial advice. The MOD and its employees are not financial advisers and cannot be held responsible for your tax liability. You must always check relevant HMRC information and are strongly advised to seek advice from an independent financial adviser or other professional.*

Appendix I

How Your Pension is Calculated Across Different Schemes

Pension entitlements are calculated differently for the main Armed Forces Pension Scheme (AFPS 15) and older (legacy) schemes like AFPS 75 and AFPS 05. For instance, AFPS 75 calculations depend on your rank and whether you have reached your "Immediate Pension Point" (IP Point). The IP Point is 16 years of "Reckonable Service" for Officers and 22 years for Other Ranks.

AFPS 75 Scheme

The AFPS 75 scheme's pension is primarily based on your rank and length of service. To qualify for a specific rank for pension purposes, you need to hold that substantive rank for two years. After one year of continuous service in the new substantive rank, 50% of the higher rank pension will have built up, increasing proportionally to 100% by the end of the second year. Where the acting rank is held then the pension build up occurs over three years. All AFPS 75 calculations use annual pension codes available on the gov.uk website.

Pensions for AFPS 75 Officers at OF6 rank and below are based on pension codes and representative rates of pay, using compulsory rates. The pension, including an automatic lump sum, is adjusted based on the Representative Rates of Pay in effect on the calculation date.

The formula for calculating an OF AFPS 75 pension uses your rank and length of service in both the AFPS 75 scheme and your total armed forces service. It is calculated as (B / C) x A, where:

- **A** is the Officers Retired Pay and Lump Benefits Pension Code for your rank and AFPS 75 service length.
- **B** is the Regulars Representative Rates for your Total Length of Service.
- **C** is the Regulars Representative rate for your length of service in AFPS 75.

Note: AFPS 75 service for an OF is counted from age 21 (or entry date if later) up to 31 March 22.

Example: For an OF5 with 28 years total service and 24 years in the legacy scheme using 2024 pension codes, the calculation would be (£120,101 / £118,269) x £44,627 = £45,318.

For partial years, the additional days are included in the calculation.

Officers at OF7 rank and above start earning full pension benefits after holding substantive rank for one year. Their pensions are based on pensionable earnings, not representative pay. The percentage is a maximum of 50% and depends on completed service.

Example: For 34 years of service in AFPS 75 and earnings of £137,136: 50% of £137,136 = £68,568. The associated lump sum would be 3 x £68,568 = £205,704.

For ORs, the pension is calculated using their rank for pension purposes, their completed years and days of reckonable service in AFPS 75, and the pension code rates in force on the relevant date(s) of calculation. The AFPS 75 rules on rank for pension purposes are explained with various examples in Sections 2.6 to 2.92 (Officers) and Sections 2.92 to 2.13.8 (Other Ranks) of JSP 854 Part 1 which is available on Gov.UK at the link below.
Armed Forces Pension Scheme 1975 (JSP 854) - GOV.UK

The AFPS75 pension code rates are also available on Gov.UK at the link below.
Tri-service pension codes: index - GOV.UK

If you receive daily supplements (e.g., for divers, aviators, and medical and dental officers) in AFPS 75, these are included in your AA calculations. The supplement is based on the number of days you've been paid from the relevant special pay scale since 1 April 1992 (For Nurses and RN Clearance Divers the effective date is 1 August 2009), while in AFPS 75, multiplied by the daily supplement for your rank. This is then added to the relevant pension code.

Example (GMP Accredited OF4): With a 2025 professional supplement rate of £2.074 and 7517 total days of AFPS 75 service from 1 September 2001 to 31 March 2022, the supplement would be 7517 x £2.074 = £15,590. This also generates a lump sum of £46,770.

Promotion in AFPS 75 has a delayed effect on the pension rank which determines the core pension benefit, because the increase does not show until the required qualification period (at least one year) after promotion. Professional supplements also have separate qualification criteria. In contrast, other AFPS schemes are salary-based, minimising a promotion drag effect.

AFPS 05 Scheme

For AFPS 05 members, pension benefits are based on your "Final Pensionable Earnings," which is your highest pensionable salary over any 365 consecutive days in your last three years of service. Benefits accumulate at a rate of 1/70th of your Final Pensionable Earnings for each year served in the scheme.

Example: If your salary were £50,000 and you served 18 years in AFPS 05, the calculation would be £50,000 x 18/70 = £12,857, with a lump sum of 3 x £12,857 = £38,571.

If your best 365 consecutive days were not in the current year, that pensionable salary is adjusted for inflation. For more details, refer to Chapter 3 of JSP 764.

AFPS 15 Scheme

AFPS 15 was introduced on 1 April 2015, and all Armed Forces members have been on this scheme since 1 April 2022. It applies to both Regular and Reserve Forces.

AFPS 15 is a non-contributory scheme based on "Career Average Revalued Earnings" (CARE). Your entitlement starts on your first day of paid service, and you are eligible for benefits after at least two years of "qualifying service." Under CARE, each year the MOD adds an amount equal to 1/47th of your annual pensionable earnings for that year to your "pension pot." This pot grows from your first day of pensionable paid service and is revalued annually in line with the Average Wage Earnings Index to keep pace with inflation. Any pension rights you earned in older Armed Forces pension schemes are protected. More details are on the AFPS gov.uk website.

Appendix II

Annual Allowance (AA) – Frequently Asked Questions (FAQs)

Q1: If I receive a letter, does it mean I have a tax charge and need to file a Self Assessment tax return?

A1: Defence Business Services (DBS) will send you a letter (Pension Savings Statement) if your AFPS pension has exceeded the £60,000 Annual Allowance limit or if your service income means you might be subject to a reduced (tapered) Annual Allowance. This does not automatically mean you owe tax.

You might be able to use unused Annual Allowance from the previous three tax years (if you were in a registered pension scheme). Other income or pension memberships can also affect your AA position. To find out if you owe tax, combine the information from your Pension Savings Statement with your other financial details (like other pensions or rental income) and use the HMRC Carry Forward Calculator.

If you have a tax charge, you must report it to HMRC via Self Assessment. If you have no tax charge, you do not need to do anything further regarding pension savings.

Q2: I am eligible for the pension remedy. Will this statement change?

A2: Your tax position for the remedy period is based on you being a member of your relevant legacy scheme, with AFPS 15 benefits calculated from 1 April 2022, onwards. Your statement has been produced on this basis. Your final remedy choice when you leave the services will not change this.

If you choose AFPS 15 benefits when you retire, your pension's opening value for AA calculation in that tax year will use your legacy benefits. The closing value will be the lower of your legacy scheme benefits and your AFPS 15 benefits. If your Pension Input Amount (PIA) then exceeds the AA, a Pension Savings Statement (PSS) will be issued for that tax year.

Q3: Where can I find more information about the Self Assessment process?

A3: Refer to HMRC guidance at gov.uk/Self Assessment-tax-returns.

Q4: What additional information do I need for a Self Assessment tax return?

A4: Once you have calculated the taxable amount, enter it into Boxes 10 to 12 of Form SA101 (page Ai 4 of Additional Information pages) for paper returns, or complete the pension savings tax section of 'Tailor Your Return' if filing online.

Do not put your Annual Allowance figures in the main Self Assessment tax return. Doing so could lead HMRC to treat it as income and expect immediate payment, possibly even asking for advance payments for future tax charges.

You must also include the Pension Scheme Tax Reference Number for your AFPS scheme: 00817591RA.

Q5: What if I have already filed my Self Assessment tax return before getting a PSS or make a mistake?

A5: If you have filed your return and need to report an additional tax liability, you can revise your return. For the 2025/26 tax year, you would need to do this before the filing deadline of 31 January 2027 for online returns, or 31 October 2026 for paper returns. If you have declared your pension savings and filed but realise you need to correct a mistake (not add new information), you have until 31 January 2027 to do so. Details on amending a return are at gov.uk/Self-Assessment-tax-returns/corrections.

Q6: What if I have other pensions or earnings DBS does not know about?

A6: DBS only considers your Armed Forces Pension Schemes when calculating your pension growth for the tax year. If you have other pensions or earnings, you must follow HMRC guidance or seek independent financial advice to get a complete tax picture. DBS cannot advise you on completing your tax return; their information is limited to your AFPS benefits.

If you need your Pension Input Amount (PIA) due to other financial interests and have not automatically received a Pension Savings Statement, you can request this from the Joint Personal Administration System Enquiry Centre by calling 0800 085 3600 or emailing DBS-JPAC@dbspv.mod.uk.

If you have savings in other pension schemes, you must ask those scheme administrators for a Pension Savings Statement. You then need to combine all this information (from all schemes and any other income sources) and enter the total amounts into the HMRC Pensions Annual Allowance calculator.

Q7: If I use Scheme Pays for Tax Year 2025/26, will you tell me how much will be deducted from my pension?

A7: An estimate can be provided. Until your retirement date is finalised, we must first calculate your initial reduction amount using factors which assume, for simplicity, that your pension will start at age 65. When you retire, we must then revalue the initial reduction amount using factors appropriate to your age at retirement and apply index-linking to ensure that the reduction remains proportionate to the growth in your pension.

Q8: If using Scheme Pays, what is the difference between Annex D and Form 17?

A8: If you complete Annex D from your Pension Savings Statement, you will receive a quote letter with cost details and instructions for finalising Scheme Pays. Note: completing Annex D to request a quote is not a formal declaration to use Scheme Pays.

If you decide to proceed with Scheme Pays having received a quote, or if you do not require a quote, you must complete Form 17 (available on MODNET or GOV.UK). Once Form 17 is submitted and accepted, you will receive a confirmation letter confirming Scheme Pays is in effect and that your tax charge will be paid by the scheme.

Do not assume your tax charge has been paid until you receive this confirmation.

Choosing Scheme Pays is an "irrevocable election," meaning it cannot be reversed.

Q9: I have tried speaking to HMRC, but they cannot help with my Annual Allowance query. Will DBS speak to HMRC for me?

A9: HMRC will not discuss your tax affairs with DBS. If an HMRC Call Centre agent cannot answer your question, ask to speak to a manager or someone who deals with Pensions Tax.

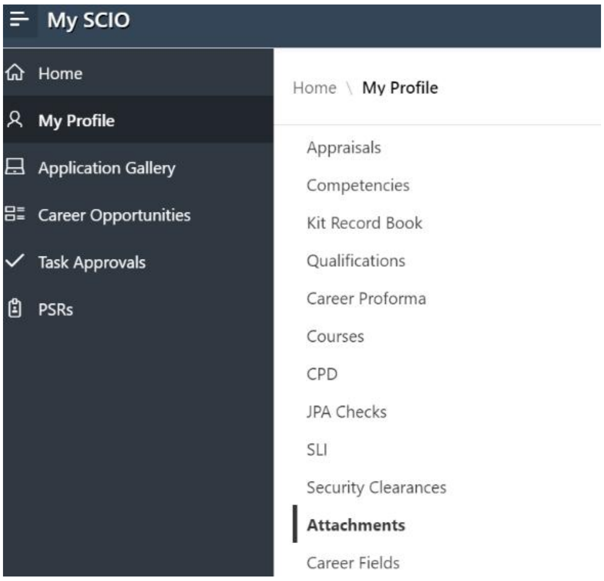
Q10: Why can't DBS advise me on my tax position?

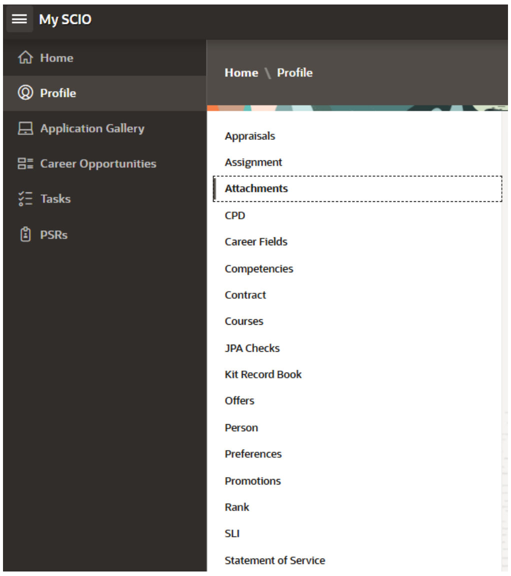
A10: Tax is an individual responsibility. DBS cannot help with tax liability calculations, completing Self-Assessment Tax Returns, or using the HMRC Carry Forward calculator. Any questions about the Annual Allowance or tax position should be directed to HMRC or your own financial adviser/accountancy services. The Finance Act 2004 prevents pension scheme administrators from giving financial advice.

Q11: How do I access my Pension Savings Statement (PSS)?

A11: If you are currently serving and are issued a PSS letter, you will be notified via your MODNET email account and can access your PSS statement via the application supporting people functions (SCIO) on Defence Intranet. If you are no longer serving, it will be sent to the address recorded on your Pension Form 1.
For Royal Navy, Army and Royal Air Force personnel, to access SCIO [SCIO Applications Portal] through MODNET and use single sign-on or your **PUID** and **MODNET** password.

Once SCIO is accessed through MODNET you will find the statement under ‘my profile’ ‘attachments’ – see screenshot examples below:


My SCIO
Home
My Profile
Application Gallery
Career Opportunities
Task Approvals
PSRs
Home \ My Profile
Appraisals
Competencies
Kit Record Book
Qualifications
Career Proforma
Courses
CPD
JPA Checks
SLI
Security Clearances
Attachments
Career Fields


My SCIO
Home
Profile
Application Gallery
Career Opportunities
Tasks
PSRs
Home \ Profile
Appraisals
Assignment
Attachments
CPD
Career Fields
Competencies
Contract
Courses
JPA Checks
Kit Record Book
Offers
Person
Preferences
Promotions
Rank
SLI
Statement of Service