BEING YOUR BEST
Healthy Finances
M&S WELLBEING

Pension Tax

Introduction to Annual Allowance

A step-by-step guide

Contents

You will find out more about the steps you need to take to check your own savings against the Annual Allowance over the following pages.

What is the Annual Allowance?

Most people in the UK can normally pay the equivalent of their annual salary into a pension plan each tax year and get tax relief.

However, there is an Annual Allowance which is set by HMRC and if you pay in more than this, you will need to pay tax on the excess.

The Annual Allowance is currently £40,000 each tax year for most people but can be lower than this in certain circumstances.

This guide explains :

- what those circumstances are
- how to work out your own personal Annual Allowance,
- how to check whether you may have paid more than the Annual Allowance, and
- what to do next if you have paid more.

It is your responsibility to monitor the amount saved into your pension plan each tax year and, if these savings exceed the Annual Allowance, to include the details in your self-assessment tax return. M&S is unable do this on your behalf.

Please note this guide has been prepared for your information only. It is not intended to provide definitive guidance or individual financial advice.

Every attempt has been made to explain the changes as succinctly as possible, but this is a complex area of taxation. If you are unsure how the taxation of pensions affects you, then you should consider seeking regulated financial advice or advice from a tax specialist.

Summary

Most people in the UK do not have to worry about the Annual Allowance as they pay much less than £40,000 into their pension and their earnings aren't high enough to reduce the £40,000 tax limit.

However, for the 2020/21 tax year onwards your Annual Allowance reduces below £40,000 (called the 'tapered Annual Allowance') if:

- your 'threshold income' is over £200,000, and
- your 'adjusted income' is over £240,000.

For tax years before 2020/21 these two income figures were £110,000 and £150,000 respectively. That means the tapered Annual Allowance would apply to more people previously.

Over the next few pages we explain what these income definitions mean.

If you and/or your employer have paid more into your pension than your Annual Allowance then you will have to declare this on your self-assessment form and pay income tax on the excess contributions.

However, you can also take up to three previous years' unused Annual Allowances into account, before confirming this.

If you have paid excess contributions then it's your responsibility to report to HMRC and arrange to pay any tax due. However, if the amount of tax is more than £500 you may be able to ask Legal & General to pay it from your pension savings on your behalf.

The rest of this guide explains this process in more detail, taking you through one step at a time.

IMPORTANT

Have you already started accessing your pension savings?

If you've already taken some (taxable) money from any of your defined contribution pension savings pots then your Annual Allowance may have reduced to £4,000.

This applies irrespective of how much you earn.

You also lose the right to carry forward any unused Annual Allowances from previous tax years.

This is called the Money Purchase Annual Allowance and when you started accessing your pension savings pot you will have been told whether this limit would apply to you in future. However, if you aren't sure you should contact your scheme administrator.

If the Money Purchase Annual Allowance applies to you then most of the information in this Guide isn't relevant. You can get further help on checking your own situation using the details in the section 'Where to get more help' on page 11.

Step 1: Work out your threshold income

Add together all of your taxable income from M&S, including:

- Salary (before salary sacrifice deductions)
- Cash allowances, eg car
- Exercised share awards
- Benefits in kind
- Bonus

PLUS

All of your personal taxable income, including:

- Share dividend payments
- Rental income from property
- Interest on savings
- Taxable earnings from any other sources

LESS

- Charitable donations through Gift Aid
- Other salary sacrifice (eg cycle to work)
- Contributions to a personal pension, or to the M&S Plan not paid through Salary exchange

This gives you your **threshold income**.

If your threshold income is less than £200,000 (2020/21) your Annual Allowance is £40,000 and you can go straight to Step 4

If your threshold income is more than £200,000 (2020/21) then continue to Step 2

WATCHOUT

The threshold income limit was £110,000 before 2020/21

EXAMPLE

Emily joined M&S in 2016 and is a member of the pension scheme paying 6% contributions. That means M&S also add 12% contributions to her pension pot each year.

In the 2020/21 tax year:

- M&S Salary = £195,000.
- Emily sacrifices £11,700 to go into her pension so her taxable salary reduces to £183,300.
- M&S pension contributions = £23,400
- M&S bonus/car/other payments = £10,000

In addition Emily's personal taxable income is:

Share dividends = £2,000

Bank account interest = £500

Rental income = £15,000

So, total personal income = £17,500

Her threshold income is calculated as:

£183,300 + £11,700 + £10,000 + £17,500 = £222,500

As Emily's threshold income is higher than £200,000 she now moves on to step 2 to work out her adjusted income.

Step 2: Work out your adjusted income

Take your threshold income and add:

- Any contributions paid by your employer into your pension plan.
- Any of your own contributions into your pension plan (that aren't already included in threshold income).

This gives you your **adjusted income**

If your adjusted income is £240,000 (2020/21) or less, your Annual Allowance is £40,000 and you can go straight to Step 4.

If your adjusted income is higher than £240,000 (2020/21) your Annual Allowance is less than £40,000 and you must go to Step 3 to work out how much it is.

WATCHOUT

The threshold income limit was £110,000 before 2020/21

The adjusted income limit was £150,000 before 2020/21

EXAMPLE

Emily has a threshold income of £222,500 in the 2020/21 tax year.

She sacrificed £11,700 into her pension pot which is already included in the threshold income calculation – so doesn't need adding back in. M&S also paid £23,400 into her pension pot – so this should be added.

Her adjusted income is:

£222,500 + £23,400 = £245,900

As Emily's adjusted income is higher than £240,000 then she has an Annual Allowance of less than £40,000.

She can now move to step 3 and work out what her Annual Allowance is.

Step 3: Work out your tapered Annual Allowance

For every £2 of adjusted income over £240,000 (2020/21), your Annual Allowance is reduced by £1.

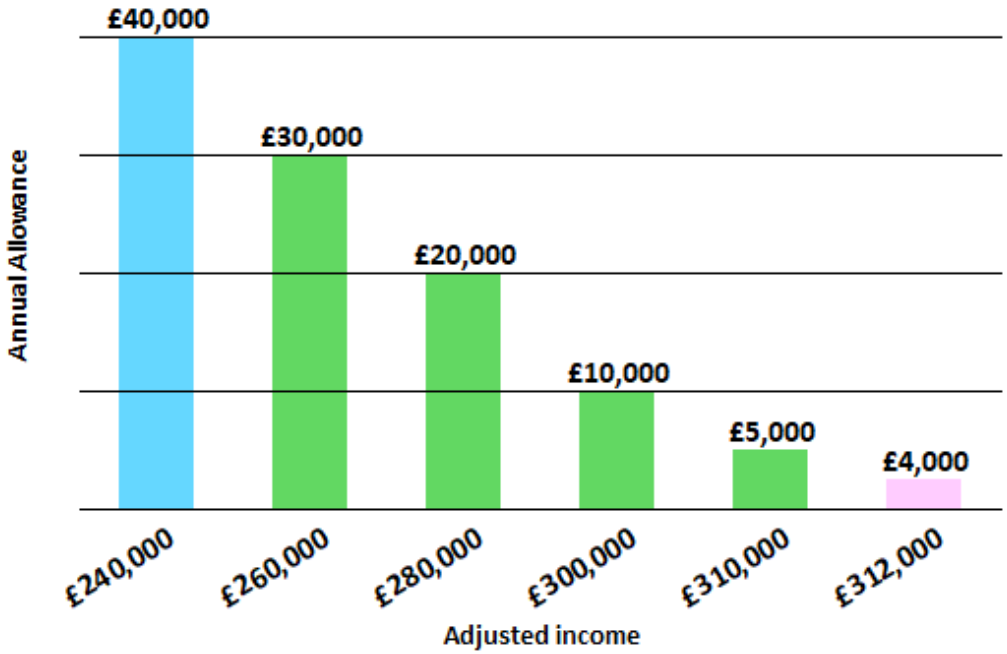
This chart shows examples for increasing adjusted income. For other adjusted incomes (not shown) the Annual Allowance is extrapolated.

If your Adjusted income is over £312,000 (2020/21) your Annual Allowance is £4,000. This is the lowest it can be.

Now you know what your Annual Allowance is you can go to Step 4

WATCHOUT

The adjusted income limit was £150,000 before 2020/21 and the lowest Annual Allowance was slightly higher at £10,000.



EXAMPLE

Emily has an adjusted income of £245,900 (2020/21).

This exceeds £240,000 by £5,900. Each £2 of the excess amount of £5,900 reduces the Annual Allowance by £1.

So Emily's Annual Allowance is reduced by: £5,900 / 2 = £2,950.

Her tapered Annual Allowance is therefore: £40,000 - £2,950 = £37,050

She can now move to step 4

Step 4: Compare your pension savings to the Annual Allowance

You need to compare all the pension contributions paid by you or your employer into any of your pension plans during the tax year against the Annual Allowance.

If you were a member of Your M&S Pension Saving Plan during the tax year:

Your annual pension statement from Legal & General shows how much was paid into the Plan during the tax year.

Alternatively, you can see how much has been paid through M&S payroll by looking at the Totals column in your March payslip:

- ERS PEN is the M&S contribution,
- L&GPENEX is your salary exchange contribution, and
- L&GPENEE is your own contribution (ie not through salary exchange).

If you have paid additional contributions directly to L&G you would need to check your own records or contact L&G to check the amounts.

If you have paid into any other pension plan during the tax year:

Contact the plan administrator directly to ask the value to include in your Annual Allowance calculation.

If you have a pension in a defined benefit or final salary scheme:

This may also count towards your allowance, although in most cases it won't. You should ask the scheme administrator if you think this might apply to you. You don't need to do this if you were a member of the M&S Pension Scheme because your pension in this scheme has not counted toward your Annual Allowance calculation since 31 March 2017 when the Scheme closed (or your date of leaving the Scheme if this was earlier).

If the total amount of pension savings is lower than the Annual Allowance you don't have a tax charge. The process stops here.

If it's higher you may have a tax charge – go to step 5.

EXAMPLE

Emily has a tapered Annual Allowance of £37,050.

The payments made into her M&S pension savings over 2020/21 were:

- £11,700 through salary exchange and
- £23,400 by M&S.

That's £35,100 in total

She hasn't made any other payments to a personal pension savings vehicle, nor has she added any one-off payments to her M&S savings pot directly through L&G.

As Emily's total pension savings in the tax year are less than her tapered Annual Allowance she doesn't have a tax charge.

Therefore there is nothing further she needs to do.

Step 5: Check for unused Annual Allowances in last 3 tax years

You may have unused Annual Allowances from earlier tax years. You can look back over the previous three.

For example if you are working out your pension tax for 2020/21 you can look back at:

- 2019/20
- 2018/19, and
- 2017/18.

Any unused Annual Allowances in any of these three tax years can be added to your 2020/21 Annual Allowance.

Alternatively, you can use the Government's annual allowance calculator which automatically works out your Annual Allowance allowing for unused allowances if you input your past income and contributions.

If, having included unused Annual Allowances, the total amount of pension savings is now lower than the Annual Allowance you don't have a tax charge.

The process stops here.

If it's still higher you have a tax charge – go to step 6.

EXAMPLE

John started saving into a pension scheme in April 2015.

He has adjusted income of over £312,000 in 2020/21 so an Annual Allowance of £4,000. His pension savings during the year were £30,000. He may have to pay a tax charge based on £26,000 of contributions.

But, first, he checks to see if he has any unused allowances to carry forward:

Tax year	AA	Pension contributions	Unused AA	Carry forward AA
2017/18	£33,000	£25,000	£8,000	£8,000
2018/19	£28,000	£22,000	£6,000	£14,000
2019/20	£16,000	£10,000	£6,000	£20,000
2020/21	£ 4,000	£30,000	- £26,000	Nil

After allowing for unused allowances his contributions only exceed the limit by £6,000.

He pays tax at a marginal rate of 45% so has a tax charge of 45% x £6,000 = £2,700.

Step 6: Report and pay any pension taxes

If you are liable for an Annual Allowance charge you will need to tell HMRC.

If you normally complete a self assessment form, then you should tell HMRC about your pension savings and liability to the Annual Allowance charge as part of the return:

- You'll need to complete the Additional Information pages of the self-assessment form to show the amount by which your total pension savings in the tax year exceed the Annual Allowance.
- The boxes that need to be completed for the annual allowance are in the 'Pensions savings tax charges' section (on the additional information pages (SA101) in the paper return).

If you haven't completed a self-assesment form before (or it's been some time since you did), you will need to complete a registration form to let HMRC know what's changed and to get a self-assessment form.

If you're a member of your M&S Pension Saving Plan:

You may be able to pay the tax from your pension savings, depending on what your Personal Annual Allowance is, your personal tax bill and whether you apply in the required time-limits.

Option if:	Deadline to submit request	Name of process
Tax owed is more than £500	30 November 2021	'Voluntary' scheme pays
Tax owed is more than £2,000 **AND** you paid over £40,000 in savings in tax year	31 July 2022	'Mandatory' scheme pays

Your pension savings will need to be more than the tax charge otherwise Legal & General will not be able to make the payment on your behalf.

EXAMPLE

John has a £2,700 tax charge for 2020/21.

He reports this in his 2020/21 tax return and is required to pay (along with any other taxes reported in the tax return) by 31 January 2022.

As the tax charge is more than £500, John decides he wants the tax to be paid from his pension savings pot. So he completes and returns a form to L&G by 30 November 2021.

L&G will then pay £2,700 to HMRC on John's behalf before 31 January 2022.

John's savings pot reduces by £2,700 when this payment is made.

Where to get more help

For more information please visit the Gov.uk website

If you have any questions about these allowances, what it means for you and paying the tax through your Plan savings pot, you can call Legal & General's specialist helpline on 0345 070 2983.

Alternatively, if you want to take independent financial advice:

- you can find an adviser who is local to you on Unbiased
- you could contact Wealth at Work, who provide financial education in the workplace for M&S and can also provide regulated financial advice for individuals. They can be contacted on 0800 234 6880.

Note that you should always check whether an independent financial adviser will charge you for any services they offer.