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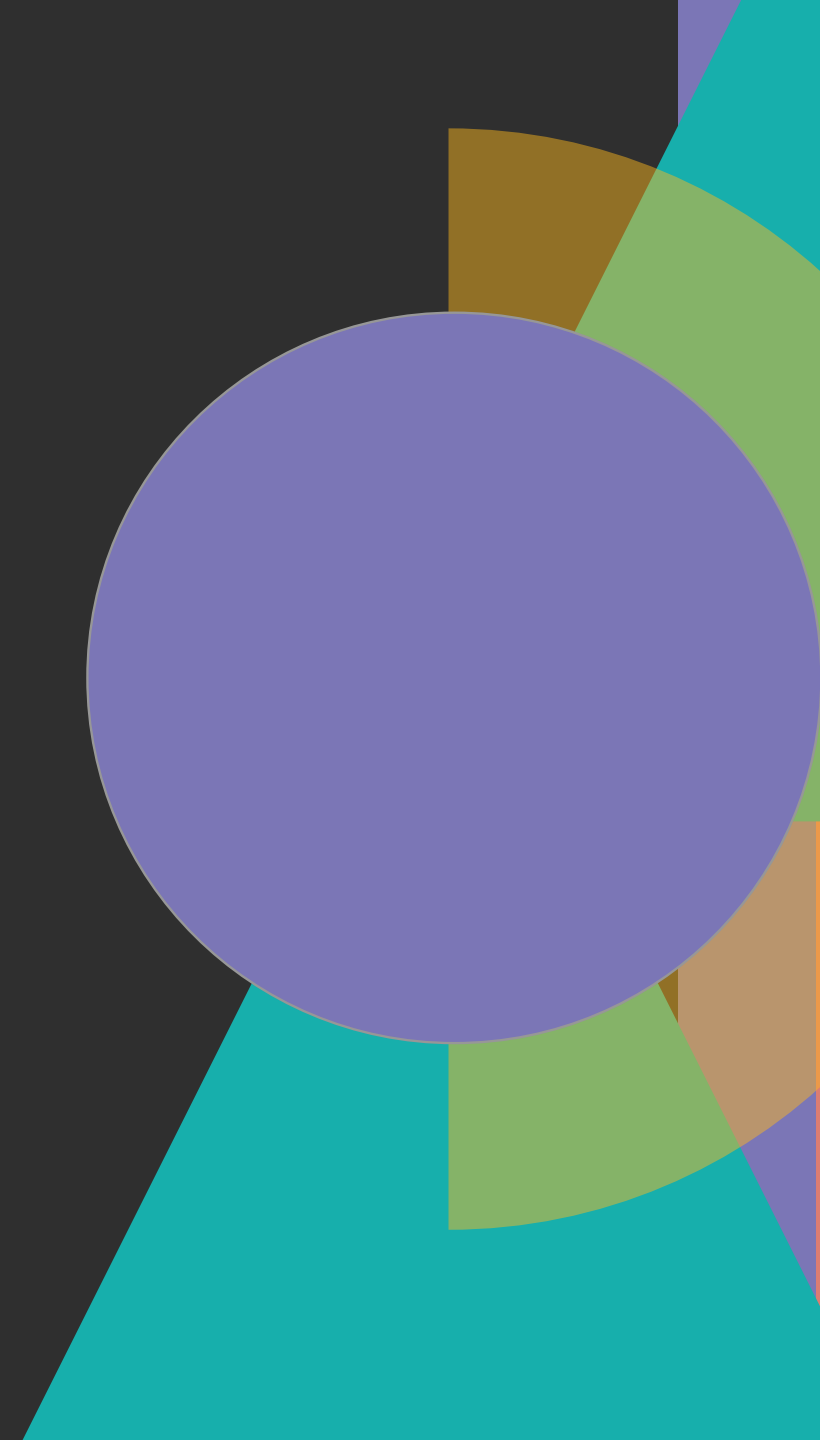
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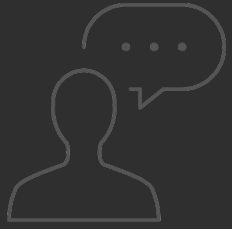
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Pensions Tax

Understanding the Annual Allowance





Mark Devlin

Senior Technical Manager



Learning Objectives

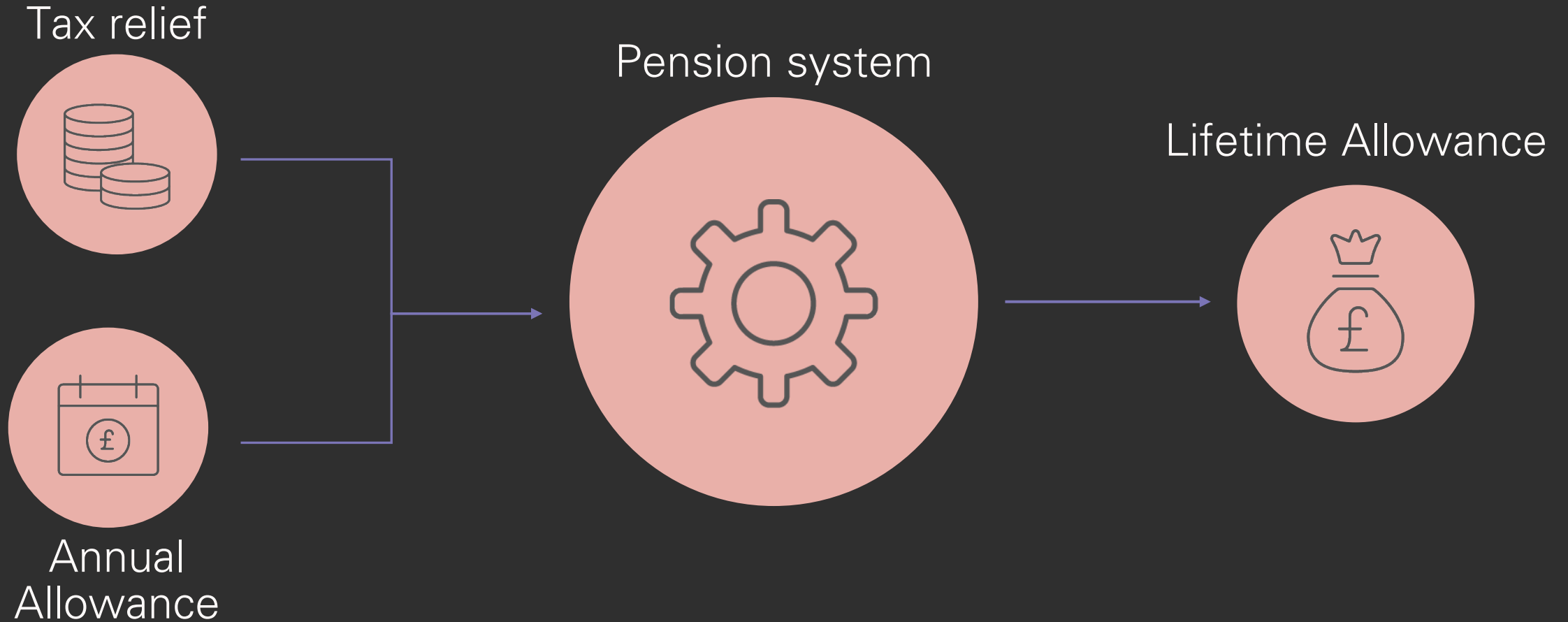
By the end of this seminar you will be able to;

**describe the
rules on tax
relief and
relevant
earnings**

**explain the
differing
annual
allowances**

**demonstrate
how planning
is affected by
tax relief and
the annual
allowance**

Pension Tax Limits



Tax Relief

Personal contributions

- 100% of relevant earnings or £3,600 if higher

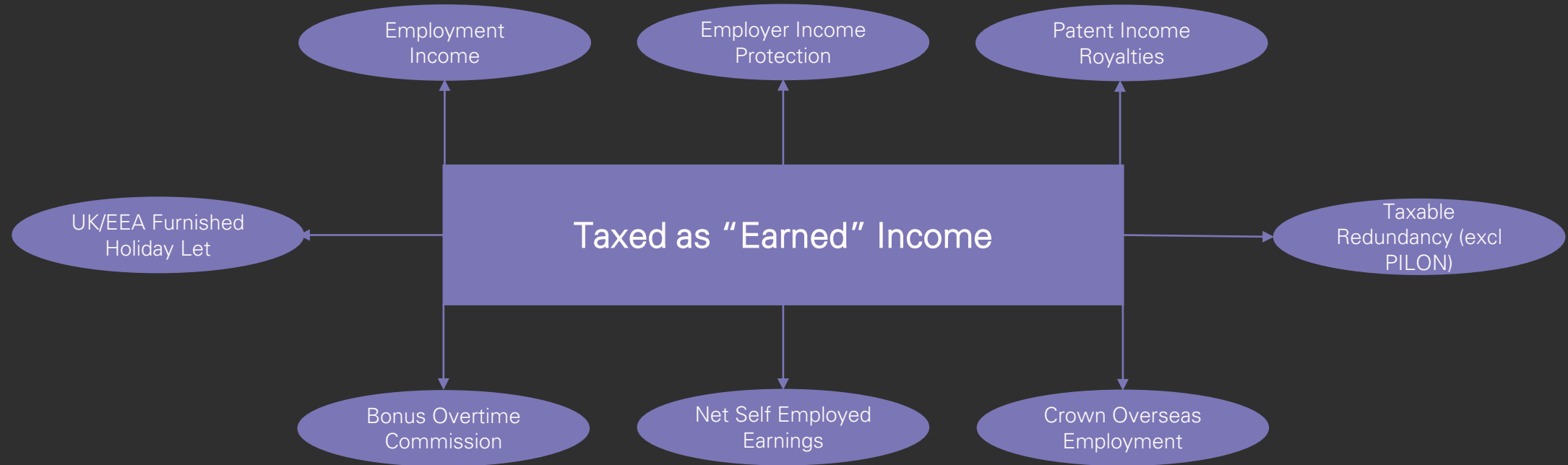
Third party contributions

- 100% of relevant earnings or £3,600 if higher

Employer contributions

- Wholly & Exclusively rules

So what income is relevant?



Tax Relief

Tax relief

- Individual Contributions
- Tax Years
- 100% of relevant earnings or £3,600 if higher

Employer Contributions

- **NOT** linked to Salary
- Employer may get corporation tax relief
- Tax Relief granted in period of account the payment is made.

Wholly and Exclusively

Will tax relief be granted for an employer contribution?

.....the same rules apply as for any other expense In particular, any contribution must be paid wholly and exclusively for the purposes of the trade for it to be deductible (ICTA88/S74 (1) (a) for corporation tax and ITTOIA05/S34 for income tax).....

.....it is important to emphasise that as part of the cost of employing staff pension, contributions will, prima facie, be allowable.....,

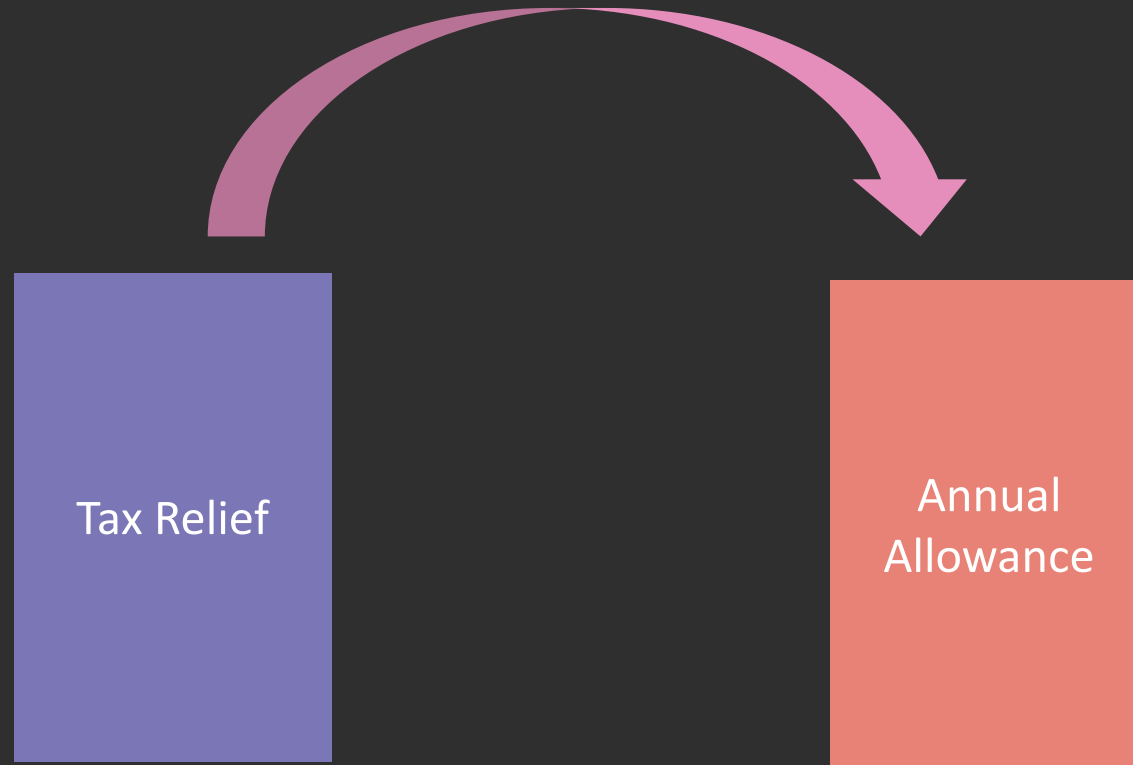
..... Whether there was a non-trade purpose for the payment will depend upon the facts of the individual case.

.....One situation is where the level of the remuneration package is excessive for the value of the work undertaken

..... accept that the contributions are paid wholly & exclusively where the remuneration package paid in respect of a director of a close company, or an employee who is a close relative or friend of the director or proprietor (where the business is unincorporated) is comparable with that paid to unconnected employees performing duties of similar value.....

Answer - Probably! Sort it out with the accountant.

One before the other



Annual Allowance

The three options

AA Limits

Standard AA

£40,000

MPAA

£4,000

Tapered AA

£4,000 -
£40,000

Calculating Pension Input Amounts

Money Purchase Inputs

The calculation

Your
Contributions



Your
Employer
Contributions



Third
Party
Contributions

DB Inputs

The calculation

$$\left(\text{Value* at end of year} - \left\{ \text{Value* at start of year} \times \text{Inflation (CPI)} \right\} \right) \times 16$$

*Value = pension accrued

plus

one times cash by addition

Money Purchase Annual Allowance

The money purchase annual allowance



Flexibly accessing benefits - overseas

UFPLS

Payment from post
April 15 flexible
annuity

Income from
Flexi-access
Drawdown

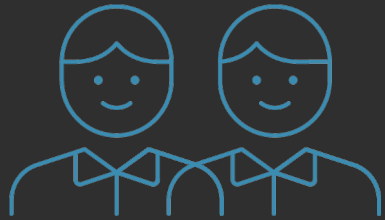
Capped Drawdown
payment above cap

Scheme Pension
< 12 members

Flexible Drawdown
6 April 15

Standalone Lump
Sum
Primary Protected
TFC

What does NOT trigger MPAA



DB arrangements



Small pots or DB triviality payment



PCLS, nil income



Beneficiary FAD Income

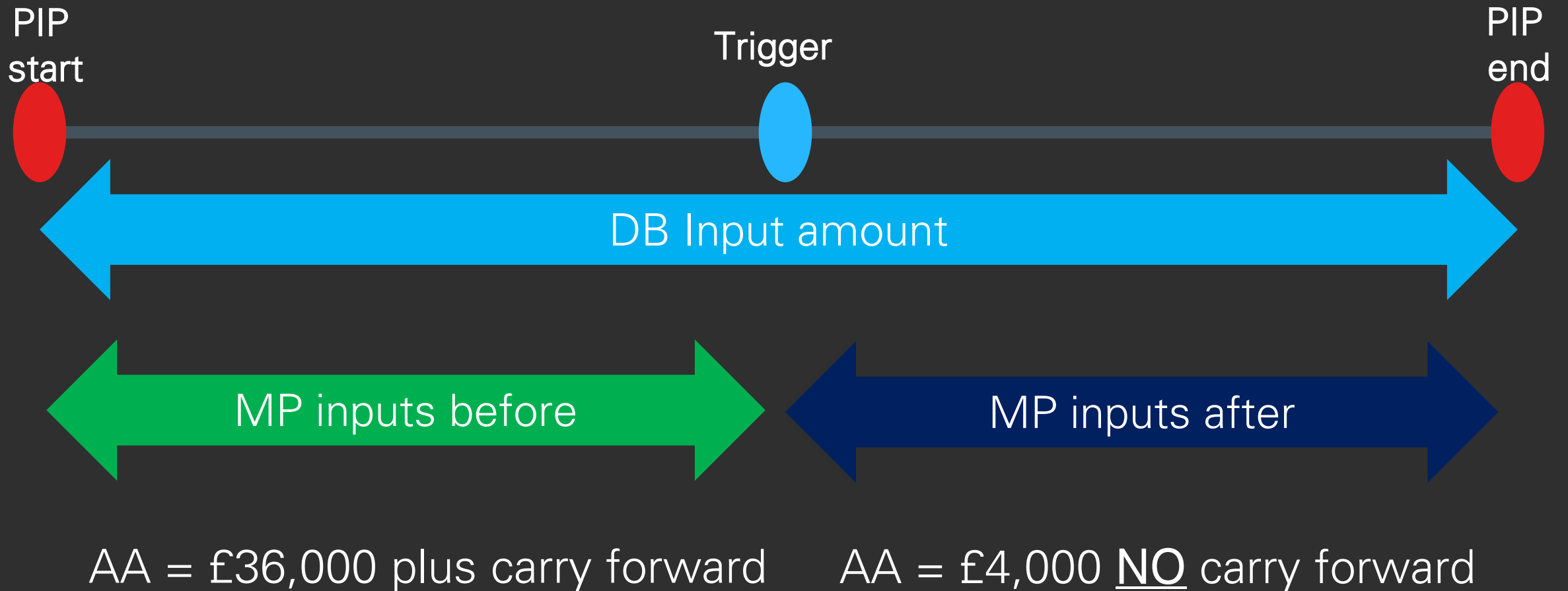


Disqualifying pension credit usage



Capped Drawdown income within GAD

MPAA Limits



Carry Forward Provisions

Carry Forward

What's it for



Mitigate Annual Allowance charges

Eligibility



From 1st tax year joined a scheme

No earnings or contributions needed

Who benefits



Anyone whose inputs exceed their annual allowance

Using carry forward



Up to 3 yrs **unused** allowance can be carried forward to current tax year

No need to make a claim

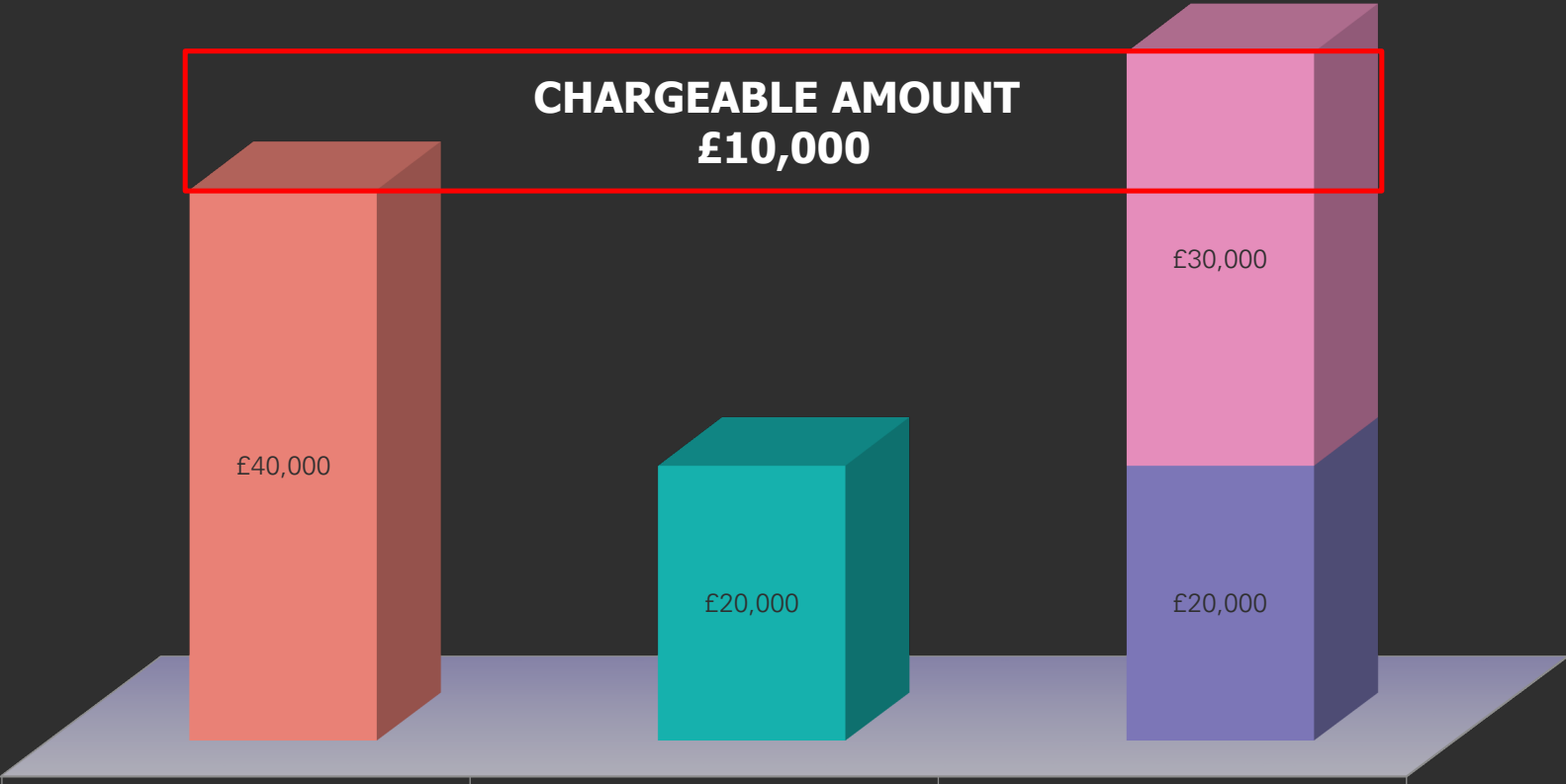
How much AA in 2022/23

	2018/19	2019/20	2020/21	2021/22	2022/23
Pension Inputs	£26,000	£25,000	£29,000	£72,000	
Unused	£14,000	£15,000	£11,000	-£32,000	£40,000
Used in 2021/22	£14,000	£15,000	£3,000	-£32,000	
Unused for 2022/23	£0	£0	£8,000	£0	£8,000
					£48,000

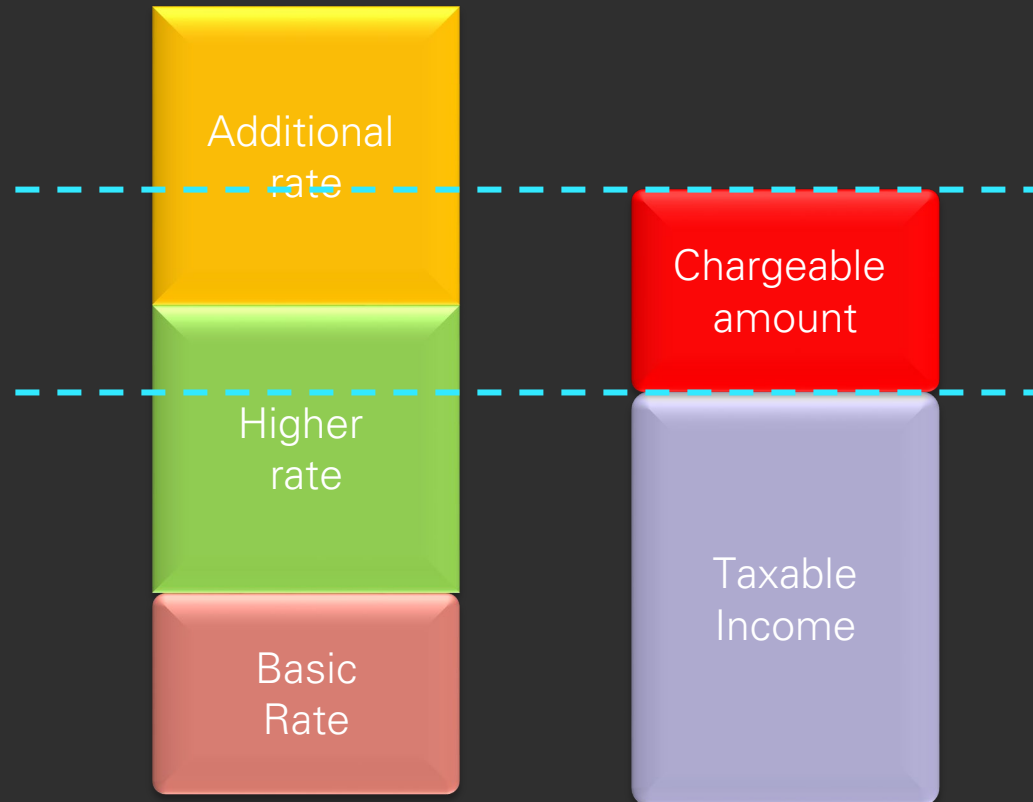
Don't look back for just 3 years...

1. Go back until you've three excess free years
2. Uncover unused allowances

Exceeding the allowance

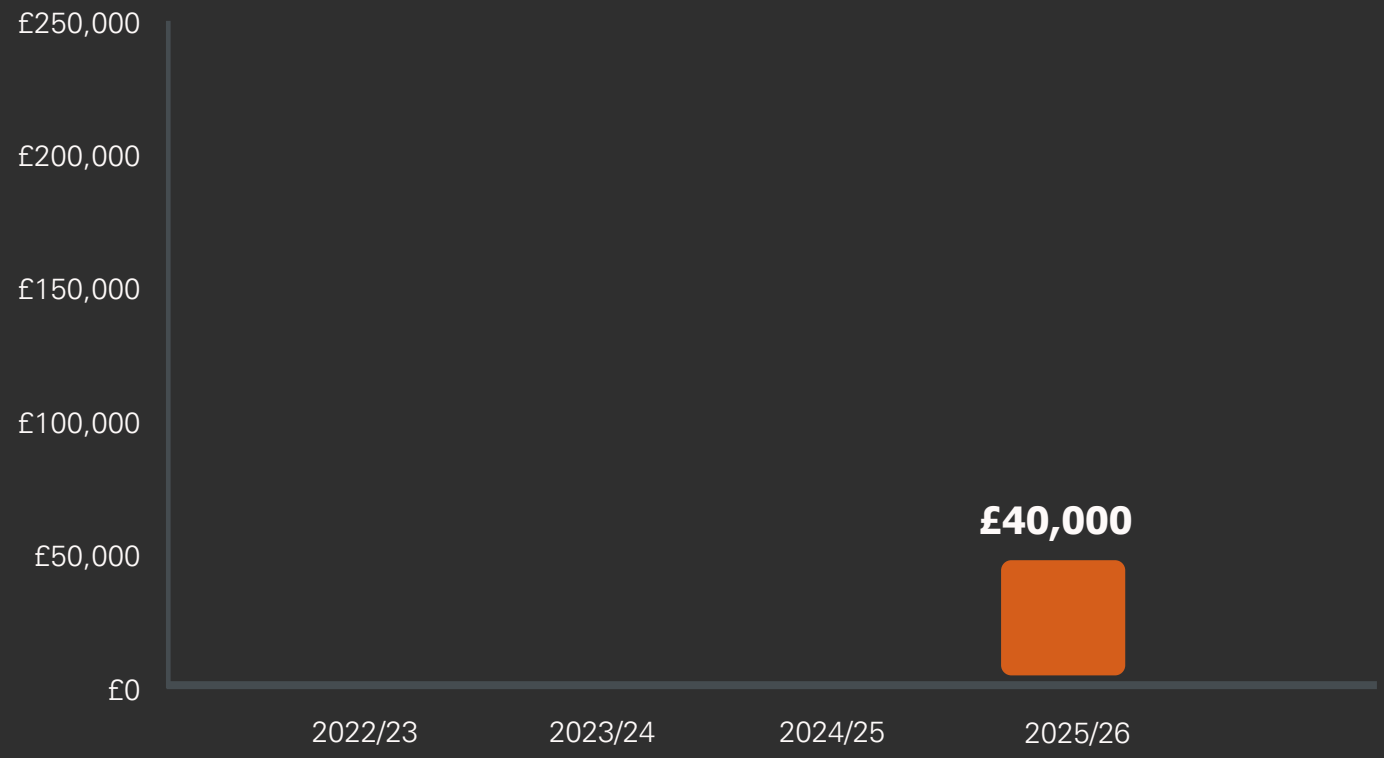


The tax charge

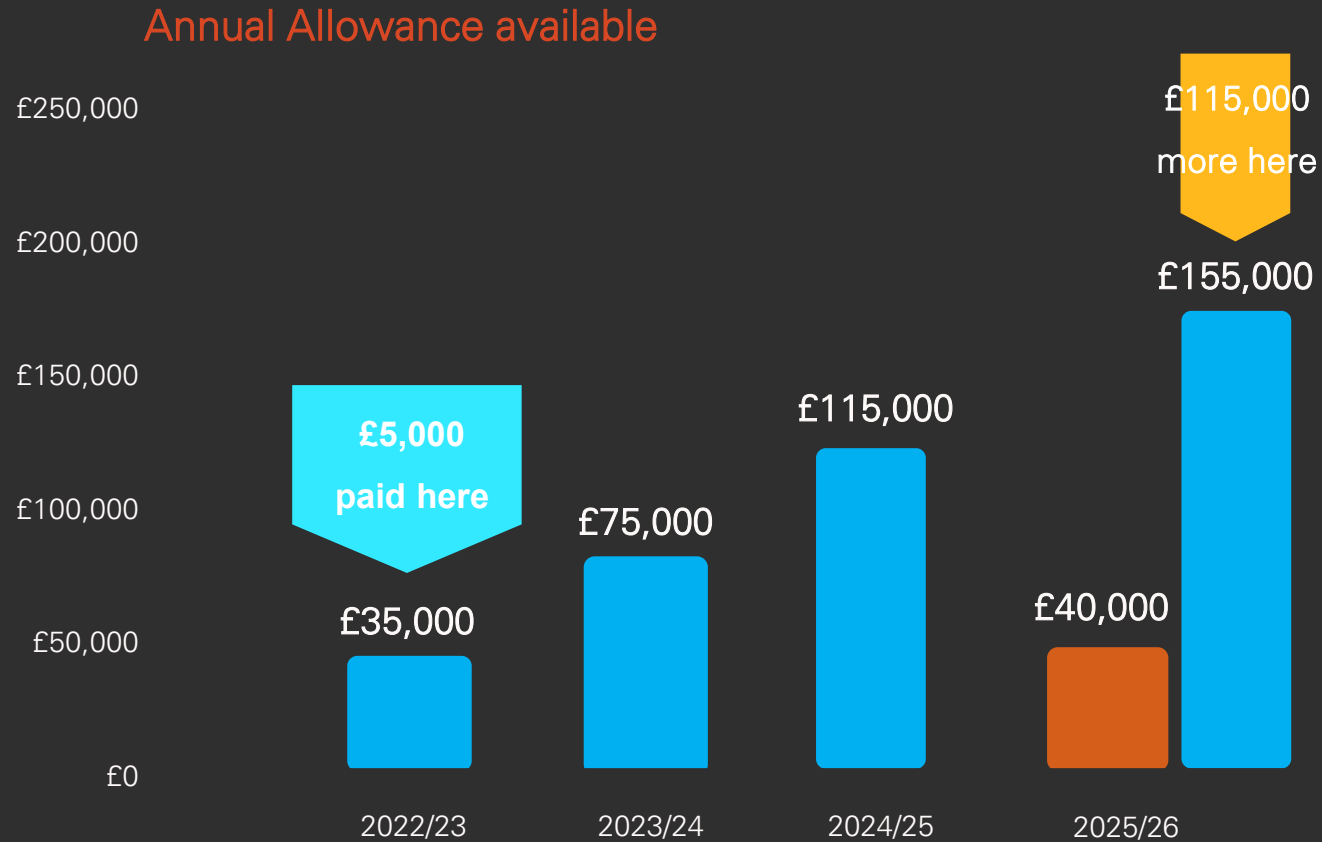


The benefits of joining a pension plan early

Annual Allowance available

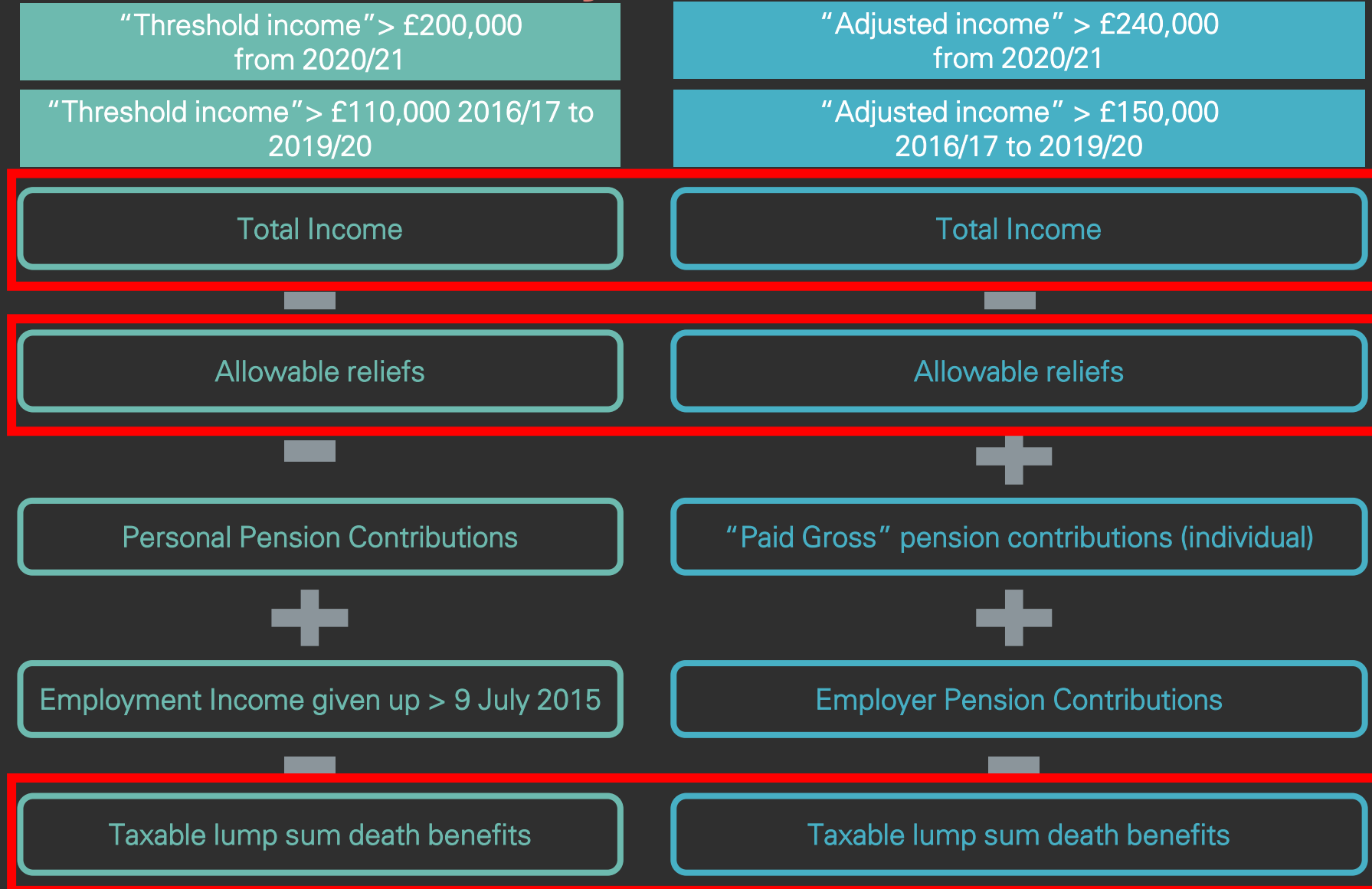


The benefits of joining a pension plan early



Tapered Annual Allowance

Threshold Income & Adjusted Income



What's included in Total Income?

Income Tax Act 2007
(Section 23)

Allowable Reliefs
(Sections 24 & 25)

Bond Gains
(FULL AMOUNT)

Dividends
(including nil rate)

Savings
(including nil rate)

Self-Employed
Income

Buy To Let
(Taxable Amount)

Pension Income

Employment Income

Total
Income

So what do we use?

Benefits
In Kind

Bonus /
Overtime

Contractual
Salary

So what do we use?

Benefits
In Kind

Bonus /
Overtime

Contractual
Salary

So what do we use?

Salary Sacrifice

Net Pay

Payroll Giving

Relief at Source

Gift Aid

Contractual
Salary

What figure do you use for employer contributions?

Money Purchase Inputs

The calculation

~~Your
Contributions~~

Your
Employer
Contributions

~~Third
Party
Contributions~~

DB Inputs

The calculation

$$\left(\text{Value* at end of year} - \left\{ \text{Value* at start of year} \times \text{Inflation (CPI)} \right\} \right) \times 16$$

*Value = pension accrued

plus

one times cash by addition

LESS

The employee contribution to the scheme

The Easy Way

Tapered Annual Allowance Calculator 2022/23 Tax Year

Instructions:

Input relevant figures in white boxes. Tapered Allowance will be calculated where relevant.
For income definitions see Pensions Tax Manual - PTM057100

Total Income
(please remember to deduct net pay contributions from this figure)

Allowable Reliefs

Net Pay Contributions
(including any s226 contributions)

Relief at Source contributions (Gross)

Value of employer pension contributions

Employer Pension Contributions to Money Purchase

Total DB Pension Input Amount for year

Total gross employee contribution to DB scheme(s) included above

Employment Income given up post 09/07/15
e.g. Salary Sacrifice - Remember to add the new employer contribution above

Taxable Lump Sum Death Benefits (Gross Value)

Totals

Limit breached?

Is the Taper Triggered? No
Annual Allowance for 2022/23 £40,000

Warning, once you have calculated the remaining AA for the member be aware that any further contributions may change the tapered calculation.

For instance if the employer is planning to contribute the remaining AA for a member, the contribution they can make will be roughly two thirds of the remaining AA that has been calculated.

Adjusted Income

£0.00
-

£0.00
+

£0.00

£0.00
+

£0.00

£0.00
+

£0.00

-

£0.00

£0.00
-

£0.00

£0.00

No

Reset

Threshold Income

£0.00
-

£0.00

-

£0.00

£0.00
+

£0.00

-

£0.00

£0.00
+

£0.00

£0.00

No

Planning

Case study: Peter



"Salary" £260,000



Personal net pay
contributions £5,000



Employer Contributions
£10,000



£10,000 of AA Left



Employer makes extra
payment of £10,000



(Uses all available AA?)

It depends on how you do it!

Tapered Annual Allowance Calculator 2022/23 Tax Year

Instructions:
Input relevant figures in white boxes. Tapered Allowance will be calculated where relevant.
For income definitions see Pensions Tax Manual - PTM057100

	Input	Adjusted Income	Threshold Income
Total Income <small>(please remember to deduct net pay contributions from this figure)</small>	£255,000.00	£255,000.00	£255,000.00
Allowable Reliefs	£0.00	£0.00	£0.00
Net Pay Contributions <small>(including any s226 contributions)</small>	£5,000.00	£5,000.00	-
Relief at Source contributions (Gross)	£0.00	-	£0.00
Value of employer pension contributions			
Employer Pension Contributions to Money Purchase	£20,000.00	£20,000.00	-
Total DB Pension Input Amount for year	£0.00	£0.00	-
Total gross employee contribution to DB scheme(s) included above	£0.00	£0.00	-
Employment Income given up post 09/07/15 <small>e.g. Salary Sacrifice - Remember to add the new employer contribution above</small>	£0.00	-	£0.00
Taxable Lump Sum Death Benefits (Gross Value)	£0.00	£0.00	£0.00
Totals		£280,000.00	£255,000.00
Limit breached?		Yes	Yes
Is the Taper Triggered? Annual Allowance for 2022/23		Yes £20,000	

Warning, once you have calculated the remaining AA for the member be aware that any further contributions may change the tapered calculation.

For instance if the employer is planning to contribute the remaining AA for a member, the contribution they can make will be roughly two thirds of the remaining AA that has been calculated.

Reset

Total Inputs
£15,000

AA Excess
£0

Total Inputs
£25,000

AA Excess
£5,000

Case Study: Peter



"Salary" £260,000



Personal net pay
contributions £5,000



Employer Contributions
£10,000



£10,000 of AA Left



Has £45,000 carry
forward



£55,000 of RAS payment
made gross (£44,000 net)



(Uses all available AA?)

It depends on how you do it!

Tapered Annual Allowance Calculator 2022/23 Tax Year

Instructions:
Input relevant figures in white boxes. Tapered Allowance will be calculated where relevant.
For income definitions see Pensions Tax Manual - PTM057100

Total Income <small>(please remember to deduct net pay contributions from this figure)</small>	<input type="text" value="£255,000.00"/>	£255,000.00	£255,000.00
Allowable Reliefs	<input type="text" value="£0.00"/>	£0.00	£0.00
Net Pay Contributions <small>(including any s226 contributions)</small>	<input type="text" value="£5,000.00"/>	£5,000.00	-
Relief at Source contributions (Gross)	<input type="text" value="£55,000.00"/>	£55,000.00	£55,000.00
Value of employer pension contributions			
Employer Pension Contributions to Money Purchase	<input type="text" value="£10,000.00"/>	£10,000.00	-
Total DB Pension Input Amount for year	<input type="text" value="£0.00"/>	£0.00	-
Total gross employee contribution to DB scheme(s) included above	<input type="text" value="£0.00"/>	£0.00	-
Employment Income given up post 09/07/15 <small>e.g. Salary Sacrifice - Remember to add the new employer contribution above</small>	<input type="text" value="£0.00"/>	-	£0.00
Taxable Lump Sum Death Benefits (Gross Value)	<input type="text" value="£0.00"/>	£0.00	£0.00
Totals		£270,000.00	£200,000.00
Limit breached?		Yes	No
Is the Taper Triggerged? Annual Allowance for 2022/23	<input type="text" value="No
£40,000"/>		

Warning, once you have calculated the remaining AA for the member be aware that any further contributions may change the tapered calculation.

For instance if the employer is planning to contribute the remaining AA for a member, the contribution they can make will be roughly two thirds of the remaining AA that has been calculated.

Reset

Had £45k carry forward

Makes £55k RAS contribution

Threshold Income now £200k

NO Taper = £15k extra AA

£15k extra can be employee or employer, this won't affect threshold.

If only there was an easy way to do this...

Annual Allowance Calculator built by M&G

Tax Year 2022/23

What tax year did individual first join a pension?
(If a member prior to 2008/09 tax year select 2008/09).

Instructions for use
 Step1: Input tax year first joined a pension scheme.
 Step2: Calculate tapered AA if applicable using grey button on right hand side.
 Step3: Input existing pension input amounts in white boxes. Inputs are required until there is 3 clear years with no AA excess

Total inputs for PIPs ending in Tax Year:

Year	Existing Inputs
2008/09	£ -
2009/10	£ -
2010/11	£ -
2011/12	£ -
Inputs prior to 14/10/2010	£ -
Inputs on or after 14/10/2010	£ -
2012/13	£ -
2013/14	£ -
2014/15	£ -
2015/16	£ -
Inputs prior to 09/07/15	£ -
Inputs on or after 09/07/15	£ -
2016/17	£ -
2017/18	£ -
2018/19	£ -
2019/20	£ -
2020/21	£ -
2021/22	£ -
2022/23	£ -

2008/09 to 2010/11 - Inputs are capped at £50,000 for Carry Forward calculations

Straddling PIPs - if total inputs are less than or equal to £50,000 then put all in as post 14/10/2010. If total inputs are over £50,000 then you need to enter the pre and post 14/10/10 split of inputs.

Tapered Annual Allowance Details

£ -	-
£ -	-
£ -	-
£ -	-
£ -	-
£ -	-
£ -	-
£ -	-
£ -	-
£ -	-
£ -	-
£ -	-

Input the taper figures here if known - or select relevant tab(s) to calculate.

Reset Summary

Reset Taper Calcs

Summary Information for 2022/23

	Existing Inputs	
Annual Allowance	£0	
Total Inputs	£0	
Unused allowance from this year	£40,000	
Carry Forward available from:		
2019/20	£40,000	£0
2020/21	£40,000	£0
2021/22	£40,000	£120,000
Chargeable Amount		£0
		£0

See Carry Forward Workings for full calculations

This calculator is designed to give a general demonstration of how a client's pension contributions can determine any unused Annual Allowance; the client may be able to 'carry forward' unused allowance from the last three years to increase their limit for the current tax year. The Annual Allowance calculator takes in the details of the client's previous and expected contributions to their pension arrangements. It then works out if the client could be subject to an Annual Allowance charge; the amount of unused Annual Allowance including any carry forward opportunities.

It does not take into account all the possible individual circumstances that may impact on the tax position of the investment. It should not be taken as offering advice or any recommendation.

The default values presented on the tool, do not suggest any recommendation from M&G. The information in this modeller is based on our understanding as at March 2022 of current taxation, legislation and HM Revenue & Customs practice all of which is subject to change without notice.

Tapered Annual Allowance Calculator **2022/23 Tax Year**

Instructions:
Input relevant figures in white boxes. Tapered Allowance will be calculated where relevant. For income definitions see Pensions Tax Manual - PTM057100

Total Income (please remember to deduct net pay contributions from this figure)	<input type="text" value="£0.00"/>	£0.00	£0.00
Allowable Reliefs	<input type="text" value="£0.00"/>	£0.00	£0.00
Net Pay Contributions (including any s226 contributions)	<input type="text" value="£0.00"/>	£0.00	-
Relief at Source contributions (Gross)	<input type="text" value="£0.00"/>	-	£0.00
Value of employer pension contributions			
Employer Pension Contributions to Money Purchase	<input type="text" value="£0.00"/>	£0.00	-
Total DB Pension Input Amount for year	<input type="text" value="£0.00"/>	£0.00	-
Total gross employee contribution to DB scheme(s) included above	<input type="text" value="£0.00"/>	£0.00	-
Employment Income given up post 09/07/15 e.g. Salary Sacrifice - Remember to add the new employer contribution above	<input type="text" value="£0.00"/>	-	£0.00
Taxable Lump Sum Death Benefits (Gross Value)	<input type="text" value="£0.00"/>	£0.00	£0.00
Totals		£0.00	£0.00
Limit breached?		No	No
Is the Taper Triggered? Annual Allowance for 2022/23	No £40,000		

Adjusted Income

Threshold Income

Warning, once you have calculated the remaining AA for the member be aware that any further contributions may change the tapered calculation.

For instance if the employer is planning to contribute the remaining AA for a member, the contribution they can make will be roughly two thirds of the remaining AA that has been calculated.

Reset

So do you just stop at the AA?

£100k
salary

Employer 6%

Employee 6%
Employer 6%

Employee 6%
Employer 12%

Pension
Fund

£6,000

£12,000

£18,000

Pension Fund less
40% AA Charge

£3,600

£7,200

£10,800

Net cost

40% taxpayer – **Scheme Pays**

£0

£3,600

£3,600

Pension taken in
Basic Rate (25% PCLS)

£3,060

£6,120

£9,180

So do you just stop at the AA?

£100k
salary

Employer 6%

Employee 6%
Employer 6%

Employee 6%
Employer 12%

Pension
Fund

£6,000

£12,000

£18,000

Net cost

40% taxpayer – **Member Pays**

£2,400

£6,000

£6,000

Pension taken in
Basic Rate (25% PCLS)

£5,100

£10,200

£15,300

So do you just stop at the AA?

£60k
salary

DB
1/60th

10%
cont

Pension Accrued	$60,000/60 = \text{£}1,000$	Deduction (20:1)	$\text{£}6,400/20 = \text{£}320$
AA used	£16,000	Pension after AA charge	$\text{£}1,000 - \text{£}320 = \text{£}680$
AA charge 40%	£6,400	Net cost	$\text{£}6,000 - 40\% = \text{£}3,600$
		Net cost Member Pays	£10,000

Learning Objectives - recap

By the end of this seminar you will be able to;

**describe the
rules on tax
relief and
relevant
earnings**

**explain the
differing
annual
allowances**

**demonstrate
how planning
is affected by
tax relief and
the annual
allowance**



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