**Core Unit 3 – Running a Workplace Pension Scheme**

**Assignment 3 Notes**

(Part 4 – Allowances)

Recommended Time: 1 Hour

# Explain the Tapered Annual Allowance and provide an example of a tapered AA calculation.

Answer should cover:

* Features of the AA (6 marks):
  + Effective from 6 April 2006 (A-day) for high earners;
  + Range of tapered AA between £4,000 and £40,000;
  + Threshold income – broadly total taxable income;
  + Adjusted income – broadly taxable income plus pensions savings;
  + 2 income tests apply:
    - whether threshold income exceeds £200,000 \*;
    - whether adjusted income exceeds £240,000; \*
  + where both tests passed, AA reduces by £1 for every £2 of adjusted income above £240,000;
* A worked example showing the tapered AA for a high earner (4 marks).

\*reduced to lower level since study manual printed

Relevant section of the manual is Part 4 Chapter 3.9.2.

# 10 marks

1. **Outline the key features of a Pensions Savings Statement.**

Answer should cover:

* must be issued automatically if member exceeds standard AA;
* must be issued within 6 months of tax year end;
* unused AA carried forward and pension input in other schemes not included;
* statement shows pension input amount in the pension input period for current and previous 3 tax years;
* members who don’t exceed AA can request a statement;
* Dc schemes – must issue if individual flexibly accessed DC scheme after 6 April 2015 and pension input amount exceeds Money Purchase AA of £4,000.

Relevant section of the manual is Part 4 Chapter 1.6.

# 5 marks

1. **In relation to the Annual Allowance tax charge, briefly describe what is meant by “Scheme Pays”.**

Answer should cover:

* member has the right to require the scheme to pay the charge on their behalf;
* scheme makes appropriate reduction to members’ benefit in return;
* member has right to require scheme to pay if certain conditions met:
  + member’s AA charge liability for the tax year must exceed £2,000;
  + pension input amount for scheme must exceed the standard AA;
  + member must request scheme pays via irrevocable election made in a prescribed form;
  + deadline for scheme pays request is 31 July after the end of the following tax year.
* scheme can voluntarily pay member’s charge if all conditions not met.

Relevant section of the manual is Part 4 Chapter 1.5.

**5 Marks**

1. **List the Benefit Crystallisation Events which would trigger a test of a member’s benefits against the Lifetime Allowance.**

Answer should include 10 of the BCEs from the following table:

Table

Description automatically generated

Relevant section of the manual is Part 4 Chapter 2.2.

**10 marks**

1. **Briefly describe Fixed Protection, Fixed Protection 2014 and Fixed Protection 2016.**

Answer should cover:

Fixed Protection:

* Introduced due to reduction in LTA to £1.5m from 6 April 2012
* Available to members if value of their benefits likely to exceed £1.5m by the time benefits drawn;
* Applications for fixed protection had to be received by HMRC by 5 April 2012;
* Benefits up to £1.8m in value protected from Lifetime Allowance charge;
* Future contributions (DC) and future accrual (DB) not permitted.

Fixed Protection 2014:

* Introduced as a result of the further reduction in the standard LTA to £1.25m from 6 April 2014;
* Members can protect benefits up to a value of £1.25m;
* Members had to apply for to HMRC before 6 April 2014;
* Future contributions (DC) and future accrual (DB) not permitted;
* Not available to members with primary protection, enhanced protection or fixed protection.

Fixed Protection 2016:

* Introduced as a result of the further reduction in the standard LTA to £1m from 6 April 2014;
* Members can protect benefits up to a value of £1m;
* No deadline for applying to HMRC;
* Future contributions (DC) and future accrual (DB) not permitted;
* Not available to members with primary protection, enhanced protection, fixed protection or fixed protection 2014.

Relevant section of the manual is Part 4 Chapters 3.2, 3.3 and 3.5.

**10 marks**

1. **The initial level of the Annual Allowance (AA) was £215,000, effective from 6 April 2006 (A-day).**

**Explain how the amount of the AA has changed since A-day.**

Answer should cover:

* AA increased by £10,000 every tax year until 2010/11 when it was £255,000;
* Finance Act 2011;
  + reduced AA to £50,000 effective 2011/12 tax year, due to:
    - state of the public finances and the consequent need to raise revenue;
    - fear that the 50% additional rate of Income Tax introduced in 2010/11 would prompt

high earners to put excessive amounts into pension schemes to avoid (or defer) tax;

* AA charge of 40% abolished;
* pension input amount (PIA) added to earnings and taxed at the individual’s marginal rate:
  + PIA over higher rate tax limit taxed at 45%;
  + PIA over basic rate limit but below higher rate tax limit taxed at 40%;
  + PIA below lower rate tax limit taxed at 20%;
* removal of exemption for members with Enhanced Protection;
* removal of exemption for those who draw all their benefits from the scheme;
* introduction of” carry forward” – unused AA can be carried forward from the previous three tax years to cover excess pension savings over the AA in the current tax year;
* special rules introduced relating to the calculation of PIPs for the period 14 October 2010 to 5 April 2011.

Relevant section of the manual is Part 4 - Introduction.

**10 marks**