



## Annual Allowance (AA)

**A presentation to members of the Harmsworth Pension Scheme  
By Helen Perrin**

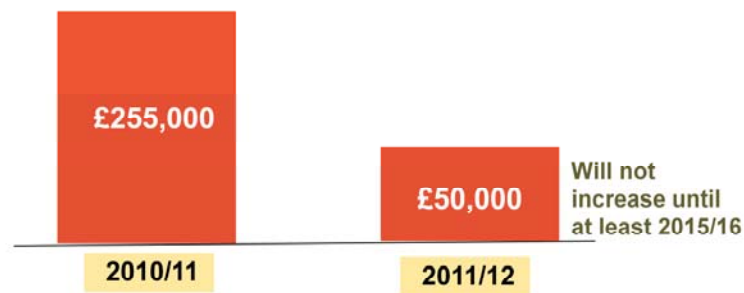
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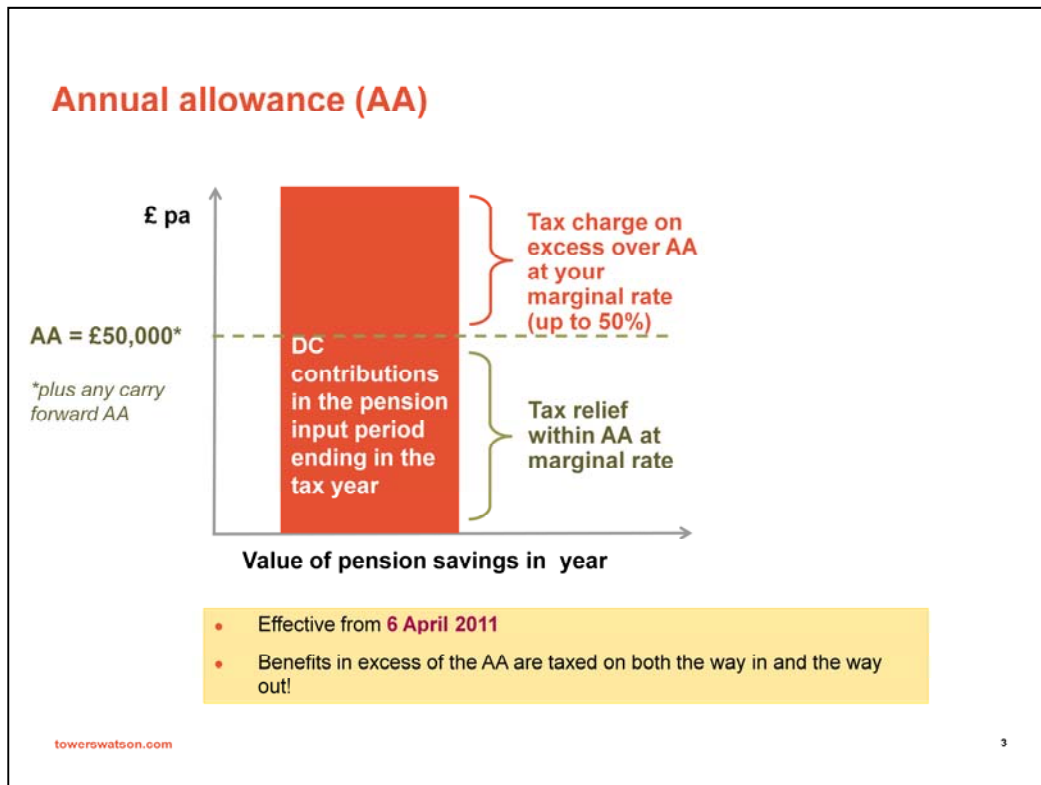
- Pension savings made by you and your employer within the AA are tax-effective
- Within the AA, you can make tax-relievable personal contributions of up to 100% of your taxable employment income



Thank you for taking the time to listen to this presentation.

In addition to the forthcoming reduction to the Lifetime Allowance, the Government reduced the Annual Allowance from £255,000 for the 2010/11 tax year to £50,000 for the 2011/12 tax year.

The Annual Allowance determines the maximum annual pension savings you can make which will be eligible for tax relief at your marginal rate. Pension savings funded by you and the Company count towards your Annual Allowance.



If you and the Company make pension savings above your Annual Allowance, the excess pension savings will be taxed at your marginal rate, which could be up to 50% if your total taxable income exceeds £150,000 in the tax year.

Pension benefits will also be taxed at your marginal rate in retirement so pension savings above your Annual Allowance are unlikely to be tax-efficient.

## Amount assessable against Annual Allowance for 2011/12

- Increases to your pre April 2011 pension during the year to 31 March 2012 – only to the extent any increases exceed the Consumer Prices Index (CPI) measure of inflation
- Credits to your Credit Account during the year to 31 March 2012
- The gross amount of AVCs paid during the year to 31 March 2012
- Any other pension savings you make e.g. to personal pensions including SIPPs
- For any pension savings made to non-Company pension arrangements, you will need to confirm which contributions count towards your Annual Allowance for the 2011/12 tax year (this won't necessarily be the contributions paid in the tax year)

The pension savings which count towards your Annual Allowance for the 2011/12 tax year include:

- Any increases to your pre April 2011 pension which exceed the Consumer Prices Index measure of inflation
- Credits to your Credit Account during the year to 31 March 2012
- The gross amount of AVCs paid during the year
- Any other pension savings you make, for example to personal pensions (which includes SIPPs)

If you make any pension savings to non-Company pension arrangements you should ask the Scheme Administrator to confirm which contributions count towards your Annual Allowance for the 2011/12 tax year as this will not always be your contributions paid in the tax year.

## Carry forward unused allowances – up to 2011/12

- Unused AA can be carried forward for 3 tax years to offset pension savings in excess of AA
- There is a deemed AA of £50,000 for the 2008/09, 2009/10 and 2010/11 tax years for the purpose of carry forward

Tax year	AA used in tax year	Unused AA carried forward	
		In year	Cumulative
2008/09	£15,000	£35,000	£35,000
2009/10	£55,000	Nil	£35,000
2010/11	£20,000	£30,000	£65,000
2011/12	£115,000	Nil	Nil

- Total available annual allowance in 2011/12 is £115,000

In this slide we see an example of how the Annual Allowance is applied up to the current tax year, in other words 2011/12, where in addition to your £50,000 allowance, you may be able to carry forward unused Annual Allowance from previous years.

For the purpose of carry forward, there is a deemed Annual Allowance of £50,000 for each of the tax years since 2008/09, so if your pension savings in any of last 3 tax years have been less than £50,000, you will be able to carry forward the difference between your actual pension savings and £50,000 for each year.

In this example, the member's pension savings were £15,000 in the 2008/09 tax year and £20,000 in the 2010/11 tax year so they may carry forward £65,000 of unused allowances to the current tax year. The unused Allowances are added to the current year Annual Allowance of £50,000 allowing up to £115,000 of tax-efficient pension savings in 2011/12.

The current year's Annual Allowance is used first and any excess pension savings above your £50,000 Annual Allowance are then set against any carry forward from the 2008/09 tax year before using any carry forward from 2009/10 and then the 2010/11 tax year. Because you can only carry forward unused Annual Allowance for up to 3 tax years, any carry forward from the 2008/09 tax year will be lost if it is not used in the current tax year.

## Carry forward unused allowances – from 2011/12

- Unused AA can be carried forward for 3 tax years to offset pension savings in excess of AA
- Unused AA for the 2011/12 tax year and future years will build up on a cumulative basis

Tax year	AA used in tax year	Unused AA carried forward	
		In year	Cumulative
2011/12	£15,000	£35,000	£35,000
2012/13	£55,000	£(5,000)	£30,000
2013/14	£20,000	£30,000	£60,000
2014/15	£110,000	Nil	Nil

- Total available annual allowance in 2014/15 is £110,000

In this slide we see an example of how the annual allowances is applied from 2011/12 going forward.

Whereas tax years ending 5 April 2009, 2010 and 2011 are considered in isolation so, for example, pension savings above £50,000 in the 2010/11 tax year are not deemed to use any unused Annual Allowance from 2008/09 or 2009/10, pension savings in 2011/12 and future years will use up any unused Annual Allowance from previous years.

If we use the same numbers as for the previous example but for tax years 2011/12 through to 2013/14, the balance to carry forward to the 2014/15 tax year is £60,000 (rather than £65,000 in the previous example). This is because the excess pension savings of £5,000 during the 2012/13 tax year will use up £5,000 carry forward from 2011/12.

## Your Annual Allowance statement

- You will need to total all pension savings to determine how much of your AA has been used each year
- Your Annual Allowance statement (available in the member's area of [www.dmgtpensions.co.uk](http://www.dmgtpensions.co.uk)) shows your pension savings for the years ended 31 March 2009, 2010 and 2011
- Your statement will soon provide an estimate of your total Company pension savings for the year ended 31 March 2012 (including any AVCs)
- You will need to add any other pension savings made to non-Company pension arrangements to estimate your total pension savings each year

Pension savings from all sources are added together to determine how much of your Annual Allowance has been used in a tax year.

An estimate of your total pension savings for the years ended 31 March 2009, 2010 and 2011 is available in the members area of [www.dmgtpensions.co.uk](http://www.dmgtpensions.co.uk).

DMGT Pensions are currently collating data on your Company pension savings to provide an estimate of your total pension savings in the year to 31 March. The estimate will assume your contributions (including any AVCs) continue at the current rate until 31 March 2012.

If you have made any pension savings to non-Company pension plans, you will need to add these on to your Company pension savings to estimate the total amount to be assessed against your Annual Allowance for the 2011/12 tax year.

## AVCs and/or additional pension savings

- If you decide to apply for fixed protection you could consider maximising your pension savings prior to 5 April 2012
  - How much scope do you have within the AA for the 2011/12 tax year?
- Check which tax year any pension savings would count towards if you plan to pay into non-Company pension arrangements
- Some pension arrangements may allow you to make pension savings before 5 April 2012 which count towards your Annual Allowance for the 2012/13 tax year

If you plan to apply for fixed protection of your Lifetime Allowance and your pension savings are estimated to be less than £1.8 million at retirement, you could consider paying maximum tax-free contributions before 5 April 2012.

Because of the way the Annual Allowance assessment works, for some non-Company plans, pension savings paid in the first 3 months of 2012 may count towards your Annual Allowance for the 2012/13 tax year.

If you have utilised your Annual Allowances for the 2011/12 tax year and the previous 3 years you could explore this option further by checking which tax year any contributions paid in January to March 2012 would count towards with the Scheme Administrator for your non-Company plans.

## Obtaining further information

- Information available from HMRC's web site
- **Annual Allowance**
  - <http://www.hmrc.gov.uk/pensionschemes/annual-allowance/index.htm>
- [enquiries@dmgtpensions.com](mailto:enquiries@dmgtpensions.com)
- DMGT Pensions will be able to give you information but not advice
- IFA Promotions web site – [www.unbiased.co.uk](http://www.unbiased.co.uk)

That concludes our presentation on the Annual Allowance.

If you require further information you can refer to guidance on the HMRC website. Alternatively, you can email your queries to [enquiries@dmgtpensions.com](mailto:enquiries@dmgtpensions.com).

Please remember DMGT Pensions cannot give you advice or comment on your specific circumstances but they may be able to answer any generic questions you have.

If you require financial advice, you can find an adviser in your area using the IFA promotions website [www.unbiased.co.uk](http://www.unbiased.co.uk).

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