Understanding the annual allowance charge
The annual allowance is the maximum amount that can be built up in your personal and workplace pensions each year free of tax. If you go over it, you may have to pay an ‘annual allowance charge’.

Sounds simple? Unfortunately, the rules aren’t quite so straightforward. There are potentially three (or four, depending on how you look at it) annual allowances that could apply to you. They all have different levels and apply in different situations – and the ones that apply to you could change from one year to the next.

**IN THIS GUIDE, WE LOOK AT:**

- What the annual allowances are
- What the limits are
- How to check whether you have exceeded an allowance, and by how much
- How you may be able to carry forward unused annual allowance to reduce a charge
- How the annual allowance charge is calculated
- What payment options could be available to you including the deadlines and tax penalties

The information in this guide is correct as at 6 April 2019.
A five-step checklist for the annual allowance

The biggest challenge with the annual allowance is that the government makes it your responsibility to check whether you have gone over it – and to calculate how much the tax charge is when you do.

This isn’t easy, which is why we’ve created a five-step checklist to help you work out if you may need to pay a charge and if you do, how much it is and how you might be able to do this.

1. Work out your annual allowances for the tax year
2. Check if you have exceeded an annual allowance
3. Check if carrying forward unused annual allowance could reduce or even eliminate the excess
4. Calculate what the annual allowance charge will be
5. Work out how and when to pay the charge

Annual allowance basics

Before we begin, here’s a quick reminder about what the annual allowance is:

- It is the maximum level of pension contributions that will receive tax relief each tax year (or, to put it a different way, the maximum level of contributions before you face a tax charge)
- It applies to work-based and personal pensions (sometimes referred to as ‘private pensions’), including final salary (defined benefit) and money purchase (defined contribution) accounts
- It applies to contributions you make, plus those from your employer and any made on your behalf by someone else, such as a partner or parent
- If you stay within the annual allowance, you benefit from full tax relief (as long as you are also within 100% of your earnings for the tax year)
- If you go over an annual allowance once all your pension contributions have been added together, you may have to pay a personal tax charge.

Note: there is a separate Lifetime Allowance that limits how much you can save in pensions overall before a charge might apply. For more information on this, please see our guide on the Lifetime Allowance which can be downloaded from [fidelity.co.uk/allowances](http://fidelity.co.uk/allowances)

The amount of the charge will depend on the amount you have gone over an allowance by, less any available carry forward amounts, and how much you have earned in the tax year.

Please note that the value of tax benefits from a pension depends on your circumstances, and tax rules may change in the future.
Work out your annual allowances for the tax year

You may not be surprised to hear that there’s a lot of jargon you have to wade through just to work out which annual allowance applies to you. We’ve tried to simplify it as much as we can, by turning it into two questions to answer, but if you need more help, you may like to speak with your pension provider or a financial adviser.

Unless you already have these, we suggest obtaining pension savings statements for all pension arrangements you have been in for the tax-year you are looking at. These will confirm the amounts paid, provide details of the applicable amounts to carry forward, if applicable, and help to determine if a charge might be reduced or even eliminated.

Question 1:

Have you taken any taxable income from a pension pot using the government’s freedom rules?

If you haven’t taken any money out of your pension at all, just go straight to question 2.

If you have taken money out, but it falls into one of the following five categories, also go to question 2.

■ Just tax-free cash (even if you’re planning on taking drawdown later)
■ To buy an annuity (a guaranteed lifelong income)
■ Income from a final salary (defined benefits) pension
■ Capped drawdown (where your income payments have to stay below a limit set by the government)
■ Small pot lump sum withdrawals (where a pension pot worth less than £10,000 is taken as cash)

If you have taken a taxable income from a pension pot, you will be subject to the money purchase annual allowance (see box 3 on the following page). This applies if you have accessed your pensions:

■ Through Flexi-access drawdown (where you can take as much as you want, whenever you want)
■ Taken an Uncrystallised Funds Pension Lump Sum (often referred to as UFPLS)
■ Set up income from a short-term annuity (one that pays for an agreed term and not for life)
■ Taken income that’s over the limit from a capped drawdown plan

Please note that these are the four main types of taxable income that can be taken from a pension pot using pension freedoms, but there are others. It would be a good idea to check with your pension provider if you’re not sure. They are required to notify you when you have taken benefits that mean a reduced allowance, the money purchase annual allowance, applies to you.

The key thing to understand here is that your allowance reduces from the moment you first take a flexible withdrawal. If your first flexible withdrawal is part way through the tax year, the reduced allowance must be used from that date forward for contributions until the end of that tax year.

From the beginning of the next tax year, the reduced allowance applies for the whole tax year. This means that in the first year you take a flexible withdrawal, you may need to measure the contributions to your pensions against the standard and/or tapered annual allowance and the money purchase annual allowance (boxes 1, 2 and 3 on the next page).
Question 2:
Is your income more than £110,000?

This question sounds like it should be a lot more straightforward, but again, the rules are more complicated than you may expect. A brief summary is on the right. If you are at all unsure how it works, we have a guide available that can help but getting personal tax advice could also be appropriate.

Income in this context is all of your taxable income rather than simply your earnings, so includes income from employment or self-employment, including bonuses, interest from savings, share dividends, rental income etc.

What counts though is your ‘adjusted income’, and this is taxable income of more than £150,000 and includes all the contributions to your pensions including those paid by your employer too.

If your adjusted income is £150,000 or less, the full standard annual allowance is available (box 1).

If your adjusted income is over £150,000, you will be subject to the tapered annual allowance (box 2).

### The three (or four) allowances

<table>
<thead>
<tr>
<th>The standard annual allowance</th>
<th>Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016/17 tax year</strong></td>
<td><strong>2017/18 tax year</strong></td>
</tr>
<tr>
<td>£40,000</td>
<td>£40,000</td>
</tr>
</tbody>
</table>

**2 The tapered annual allowance**

If you earn more than £150,000 in adjusted income, your annual allowance reduces by £1 for every £2 over this level – all the way down to a minimum of £10,000 for anyone with an adjusted income of more than £210,000.

See our tapered guide for full details.

<table>
<thead>
<tr>
<th>The money purchase annual allowance</th>
<th>Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016/17 tax year</strong></td>
<td><strong>2017/18 tax year</strong></td>
</tr>
<tr>
<td>£10,000</td>
<td>£4,000</td>
</tr>
</tbody>
</table>

If you are an active member in a final salary scheme, an alternative annual allowance is available for building up benefits in those schemes. Note that it may also be affected by the tapered annual allowance. Please speak to your scheme administrator for details.
Calculate if you have exceeded the annual allowance

Now you know the annual allowance(s) you need to measure your contributions against, you need to work out how much you have contributed and then compare this against the applicable annual allowance(s):

- **For money purchase pensions:** You need the total contributions during the tax year from you, your employer and anyone else. You can get this by contacting your provider, checking an annual contribution statement or, in some cases, using an online account. If you do get the figures yourself, make sure you use the dates that any contributions were **paid**, not when they were invested. This may not always be obvious when looking online so if contributions are close to the tax year start and finish, it’s a good idea to phone your provider and ask for a pension savings statement to be sent. If you have several pensions you will need the figures for all of them and will need to combine the values for each applicable tax-year.
  - Your provider can also tell you if their records indicate you are subject to the money purchase annual allowance and from which date.

- **For final salary schemes:** You need to know the value of any increases to benefits. This is more complicated, but your pension provider should be able to give you the information you need.

Note that if you have exceeded the standard and/or money purchase annual allowance in a given arrangement, the scheme administrator will have sent you a pension savings statement automatically.
Making the calculation

Now just subtract the total contributions in a tax-year from your annual allowance. If you get a positive number, there’s no charge to pay. If you get a negative one, go to step 3.

For example:

<table>
<thead>
<tr>
<th>Annual Allowance</th>
<th>Total contributions</th>
<th>Positive figure</th>
</tr>
</thead>
<tbody>
<tr>
<td>£40,000</td>
<td>£30,000</td>
<td>£10,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No charge to pay</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual Allowance</th>
<th>Total contributions</th>
<th>Negative figure</th>
</tr>
</thead>
<tbody>
<tr>
<td>£40,000</td>
<td>£50,000</td>
<td>-£10,000*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>You may have to pay a charge</td>
</tr>
</tbody>
</table>

The way you do the calculation will always be the same but the figures will differ depending on the annual allowances that apply and the tax year. If you’re subject to the tapered or money purchase annual allowance, you’ll need to subtract from that figure instead. Also, if you have triggered the money purchase annual allowance in the year you are looking at, you need to consider the contributions paid after the trigger date in this calculation.

Note that 2015/16 was a special tax-year and a pension savings statement is the best way to obtain the correct figures to use in your calculations.

* It may be possible to use carry forward to make higher contributions and reduce the excess amount a charge may be payable on.

If the MPAA has been exceeded a charge will always be payable as carry forward is not available.
Check if carrying forward unused annual allowance could reduce or even eliminate the excess

If you have exceeded the standard annual allowance or tapered annual allowance, you should use any unused allowance from the three previous tax years in addition to this year’s allowance to determine any charge due. This is known as ‘carry forward’ and it can reduce, or even eliminate, any annual allowance charge. Just make sure you are still within 100% of your earnings for the tax year you are making the calculation. You should also look to use any unused allowance from the earliest year first. Take care if you have exceeded in a previous year, as you will need to work back a further 3 years from the date you exceeded, so that you can calculate if any carry forward may be able to be carried forward to the current year. For more information, read our Carry Forward guide you can find it at: Fidelity.co.uk/allowances

Note carry forward cannot be used with the money purchase annual allowance, so if this allowance applies to you and you go over it, you will be facing a charge.

If, once you’ve checked whether you can use unused allowances from previous years to reduce the charge, you still have an excess that a charge is payable on, you will need to calculate what this is. This will need to be shown on your self-assessment. If, after carrying forward, you work out there is no longer an excess, you should record and keep this information for future reference and do not have to show anything on your self assessment.

Can more than one annual allowance apply?

Yes. If you take a flexible withdrawal during the tax year, then you may need to measure your contributions against two or three annual allowances, this is explained above. However, the calculation in this situation is actually quite straightforward. You just work out all the ways you could have exceeded an allowance separately and then pay the charge on whichever is the largest figure.

Here’s an example:

Mary earns £75,000 in the 2018/19 tax year. By 15 January 2019, she contributed £40,000 to her pension and then took a flexible withdrawal from it. From then onwards the money purchase annual allowance applied to her. Mary contributed a further £12,000 by the end of the tax year – bringing her total contributions for the tax year to £52,000. These are her calculations:

**Standard annual allowance calculation**

<table>
<thead>
<tr>
<th>Annual allowance</th>
<th>Total contributions</th>
<th>Negative figure</th>
<th>Charge maybe payable*</th>
</tr>
</thead>
<tbody>
<tr>
<td>£40,000</td>
<td>£52,000</td>
<td>-£12,000</td>
<td></td>
</tr>
</tbody>
</table>

If Mary has unused allowance from previous years she should use this to reduce the amount a charge is payable on.

**Money Purchase annual allowance calculation**

<table>
<thead>
<tr>
<th>Money Purchase annual allowance</th>
<th>Total contributions</th>
<th>Negative figure</th>
<th>Charge is payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>£4,000</td>
<td>£12,000*</td>
<td>-£8,000</td>
<td></td>
</tr>
</tbody>
</table>

* Only those made after 15 January 2019 when she triggered the MPAA.

The highest excess and, therefore, the highest charge comes from the first calculation (if no carry forward is available to reduce the excess), so this is the one that is used. HMRC have produced ‘Helpsheet 345’ that provides more detail. This can be found by searching for ‘HS345’ on the gov.uk website.
Work out what the annual allowance charge will be

Broadly speaking, you work out your charge by adding the amount you have gone over the annual allowance (less any carry forward amounts if available, except in relation to the money purchase annual allowance) to your taxable income for the year. The annual allowance charge is then calculated at your highest tax rate*.

The best way to do this is to fill in a self-assessment tax return and complete the ‘Pension savings tax charges’ section (you’ll need form SA101 if you’re using paper forms). If you do not complete a self-assessment tax return please contact HM Revenue & Customs (HMRC) directly with details of your National Insurance number and the amount you have gone over the respective annual allowance. HMRC can then work out the charge for you.

Here’s a quick example

Mike and his employer put £60,000 in his workplace pension during the 2018/19 tax year. He has the standard annual allowance of £40,000 available and has no unused allowance to carry forward from previous years. This means he must pay an annual allowance charge on £20,000.

His total taxable income for the year is £70,000. To calculate the charge, he adds £20,000 to this figure – making his taxable income £90,000 for the 2018/19 tax year.

This means all £20,000 is over the threshold for higher-rate tax (£50,000 in the 2018/19 tax year), so the annual allowance charge is £8,000 (£20,000 x 40%).

* Care needs to be taken if the excess amount takes you over one of the tax bands as tax at different rates will apply to different sections on the excess amount.

The example above is based on UK tax rates applying. Rates for Scottish and Welsh tax payers may differ.
Check how to pay the charge

If you are facing a charge, the last step is to pay it. There are two ways you can do this:

- In some circumstances, you may have to pay the charge directly to HMRC yourself; typically, through self-assessment. This could also result in, or may be paid by, an adjustment to your tax code allowing HMRC to collect additional tax due throughout the tax-year.

- It may be possible for you to pay the charge from your pension account. This is known as Scheme Pays. It can help, as the charge is paid from untaxed money, rather than money you have already paid tax on. However, the other side to this equation is that pensions are tax-efficient and if you use money in a pension to pay the charge, there will be less in the pension to grow over the years to your retirement.

There are two types of Scheme Pays. Depending on the charge you owe and your pension plan, you may have access to one, both or neither of them.

- **Mandatory Scheme Pays:** As long as you meet certain conditions, your scheme must offer this option and it will be jointly and severally liable with you for the charge. However, this option is available in a limited number of circumstances.

- **Voluntary Scheme Pays:** Your pension scheme is not obliged to offer this option, but if it does, you may find it a more appropriate way of paying a charge. However, you remain liable for the charge until it is paid.

The deadlines for each type are very different and must be strictly adhered to. Voluntary Scheme Pays is subject to the criteria we set and CANNOT be processed if received after the deadline. Exact details are shown on the following pages.
Mandatory Scheme Pays

Your scheme must offer this option if:

- The charge is over £2,000* and
- You have exceeded the standard annual allowance of £40,000

It does not apply when:

- You have gone over the tapered annual allowance and/or the money purchase annual allowance, but have not exceeded the £40,000 level of the standard annual allowance or;
- You have a charge of £2,000 or more overall but this is not based on the contributions to that scheme

It partially applies when:

- You have exceeded the tapered annual allowance or the money purchase annual allowance and gone over the £40,000 level of a standard annual allowance. In this situation, it will only cover any charge on the excess over £40,000.
- For example, imagine Peter has a tapered annual allowance (TAA) of £15,000 and has put £60,000 in his pension. Although he has gone over the TAA by £45,000, he is only £20,000 over the standard annual allowance. This means his scheme only has to pay the charge on the £20,000 if carry forward does not reduce it. It does not have to pay the charge on the other £25,000.

If you want to use Mandatory Scheme Pays with Fidelity:

- You must submit a request by 31 July in the year after the tax year when the charge became due.

Voluntary Scheme Pays

You will need to check with your pension provider to see if this option is available. If it is, you can elect for the charge to be paid from your pension account, as long as you have contributed to the pension in the relevant tax year and the excess arises in it.

This can be used for charges of any size. Equally, it can be used whether or not you exceed the standard annual allowance while exceeding the tapered annual allowance or money purchase annual allowance.

If you want to use Voluntary Scheme Pays with Fidelity:

- You must submit a request by 31 August in the same year when the charge becomes due. So, if you exceed an annual allowance in the 2018/19 tax year, you have until the 31 August 2019 to get in touch with us. This will allow us to take the money out of your pension and pay the charge (within the periods that pension schemes must abide to) before the deadline for self-assessment.

* Based on contributions paid or increases in benefits in a defined benefit (including final salary and career average) scheme you are still an active member of.
Deadline for submitting a request for mandatory scheme pays for the 2017/18 tax year

Annual Allowance excess for 2018/19 identified
You will need to do this yourself if you have contributed to more than one arrangement or are subject to a tapered annual allowance.

Deadline for submitting a request for voluntary scheme pays for the 2018/19 tax year

31 August is a specific deadline that ensures there is enough time to review and agree to payment of the charge before you submit your self-assessment return – where we will confirm the amount of the annual allowance tax charge that the scheme will pay. If we receive a voluntary scheme pays request after this deadline, it will not be possible to process it in time for it to be included in the pension schemes’ tax return (that are subject to different reporting periods) that must be completed before the deadline for self-assessment. As a result the request will be declined.

Timeline for Annual Allowance Tax Charge

<table>
<thead>
<tr>
<th>2018/19 Tax Year</th>
<th>2019/20 Tax Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 April 2019</td>
<td>31 July 2019</td>
</tr>
<tr>
<td>31 August 2019</td>
<td></td>
</tr>
</tbody>
</table>
Deadline for submitting self-assessment returns for the 2018/19 tax year

If you’re intending to use voluntary scheme pays, you should wait to receive confirmation that the scheme is prepared to pay the tax charge before you submit your self-assessment. If you’re intending to use mandatory scheme pays, you will not need to have received confirmation that the scheme will pay the tax charge before you submit your self-assessment as where the conditions are met, the scheme is obliged to pay the tax charge.

Annual allowance excess for 2019/20 identified

You will need to do this yourself if you have contributed to more than one arrangement or are subject to a tapered annual allowance.

Deadline for submitting a request for mandatory scheme pays for the 2018/19 tax year

Annual allowance charge details confirmed to be paid by the scheme should be entered into parts 11 and 12 of the ‘Pension Savings Tax Charges’ section in the self-assessment process.
Deadlines and tax penalties

There can be additional tax implications if the tax charge deducted is the wrong amount or the required deadlines are missed. If a respective deadline is missed, scheme pays will not be available.

In working out the amount of the charge on an excess amount above the standard or tapered annual allowance, you must first reduce the excess amount by any unused annual allowance from previous years. You also need to remember that the charge can only be deducted from the arrangement(s) in which the excess arose, as a consequence if contributions exceeded the annual allowance in one plan you could not request a second plan to meet the charge.

If the condition for Mandatory Scheme Pays is met, and you are looking for the charge to be paid by the scheme, you have a little over 15 months after the end of the applicable tax-year to arrange this.

Schemes are not obliged to offer Voluntary Scheme Pays and cannot pay an annual allowance charge that does not meet the criteria for Mandatory Scheme Pays. Where Voluntary Scheme Pays is available, completed forms must be received by the 31 August following the end of the tax-year to which the annual allowance charge relates. This means you have a little over 4 months after the end of the applicable tax-year to arrange this.

Remember you should carry forward any unused allowance from previous years before checking if an annual allowance excess exists. Note, carry forward does not apply in relation to the MPAA.
Next steps

- If contributions have been made to your Fidelity plan and you wish to use Scheme Pays, are within the relevant deadline to pay an annual allowance charge with Fidelity and do not already have a Scheme Pays form, please contact us to ask for one.

- Once you have filled in and returned your Scheme Pays form, we will review your request and confirm if it is available through your plan.

- If the pension arrangement agrees to pay the charge, you will need to complete the relevant sections of your self-assessment form or notify HMRC directly.

We have a number of guides that are available to assist you that cover the Tapered Annual Allowance, Carry Forward and Money Purchase Annual Allowance that provide further detail and these are available from fidelity.co.uk/allowances.

If you are at all unsure about any of the content contained in this or any of our other guides then please feel free to contact us to discuss it. However, this is a complex topic and you are responsible for your tax affairs so we do suggest you consider taking specialist tax advice in this situation. We are unable to provide this service and are unable to calculate annual allowance charges for you.

For information about your pension account, please contact the Pension Service Centre on 0800 3 68 68 68 between 8am and 6pm on UK business days. If possible, please make sure you have your password when you call.

Alternatively, you can email the Pension Service Centre at pensions.service@fil.com. You can also view your pension account by logging into PlanViewer at fidelitypensions.co.uk.
HOW CAN FIDELITY HELP?

If you would like to discuss your pension account, please call the Pensions Service Centre on 0800 368 6868.

You can also visit fidelity.co.uk/pensions or speak to an authorised financial adviser.