

LGPS

Your Annual Allowance

00:00

Pensions made simple: Your Annual Allowance

00:06

A pension is a tax efficient way to save for life after work.

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However the Government sets limits on the amount of pension you can build up

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before you have to pay extra tax.

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This video explains your annual allowance.

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This is the total pension savings you can build up in a tax year

On screen: Standard annual allowance £40,000, £60,000 from 6th April 2023

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before you must pay extra tax.

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In the LGPS, the increase in the value of your pension benefits

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is used to work out how much annual allowance you have used.

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The value of your pension at the start of the tax year is adjusted for inflation

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and compared with the value at the end of the year.

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The difference is multiplied by 16,

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any increase in your lump sum is added

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as well as any additional voluntary contributions paid in the year.

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Most people are not affected by the annual allowance

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as their pension savings are below the limit.

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If your pension savings in the LGPS grow by more than the annual allowance

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then your pension fund will let you know

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by sending you a pension saving statement.

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The annual allowance applies to all of your pension savings,

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including your LGPS pension, but not your State Pension.

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If you are also paying into another pension,

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you should check the total annual allowance you have used.

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Ask your pension providers for a pension saving statement

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if you think you might be affected.

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If you think you may exceed the annual allowance, don't worry.

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Take a look at your pension savings over the previous three years.

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You can 'carry forward' any unused annual allowance into the current tax year.

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So even if you exceed the allowance in one year,

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you may not have to pay extra tax.

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You can also slow down your pension growth

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by moving to the 50/50 section of the Scheme.

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Here you pay half the normal contribution rate to build up half the pension.

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There are times when your allowance could be lower

On screen: Your annual allowance £40,000, £60,000 from 6th April 2023

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than the standard annual allowance,

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such as if your taxable income and pension savings

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are over the current limits in a tax year.

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Your annual allowance is then tapered

On screen: Taxable income: £200,000

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and decreases as your income increases.

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If you have to pay an annual allowance tax charge,

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you need to tell HMRC

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by completing a self-assessment tax return.

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Your pension fund may be able to pay the tax charge on your behalf.

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This would be recovered by permanently reducing your LGPS pension.

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It is your responsibility to pay the right amount of tax.

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Always take independent financial advice

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before you take any action to reduce your tax liabilities.

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For more information about the annual allowance,

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visit the Government's website.

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You can also visit the LGPS website and use our quick check tool

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to see if you are affected,

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or watch more of our 'Pensions Made Simple' videos.

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LGPS. For you. For now. For the future.

03:20

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