

ANNUAL ALLOWANCE

SEPTEMBER 2019

You have a tax-free limit on how much you can save or earn in a pension each tax year. This is called your Annual Allowance.

If you go over this, you usually have to pay a tax charge.

This leaflet explains how Annual Allowance works, and what you can do if you go over it.

 THE CHURCH
OF ENGLAND

PENSIONS BOARD

Annual Allowance

What is the Annual Allowance cap?



Currently you can pay or save up to £40,000 each tax year (or 100% of your taxable earnings if this is less than £40,000) into a pension and get tax relief. This is your Annual Allowance.

This cap applies to all your pensions combined, not just pensions you have with us.

Working out how much Annual Allowance you have used is not straightforward. How much you use depends on what type of pension you have.

If you have used more than £40,000 during the tax year you might have to pay tax. If you go above this with us, we will contact you.

If your taxable earnings from all sources are above £110,000 your Annual Allowance might be less than £40,000. Read our **Tapered Annual Allowance leaflet** to find out more.

Annual Allowance can work differently depending on which pension you have with us.

How does Annual Allowance work for defined benefit schemes?

The defined benefit rules apply if you have a pension in the:

- Clergy pension scheme
- Defined Benefit or Pension Builder Classic sections of CWPF
- Defined Benefit section of CAPF

To work out how much Annual Allowance you have used in a defined benefit scheme, we look at how much your pension has gone up by over the tax year – allowing for inflation, and we multiply this amount by 16.

If your pension comes with an automatic tax-free lump sum or you have paid Additional Voluntary Contributions, we add these on too.

Working this out can be very complicated. Ask us and we can work it out for you.

What about defined contribution schemes?

The defined contribution rules apply if you:

- pay Additional Voluntary Contributions (AVCs) with the Clergy pension scheme
- are a member of the Defined Contribution section of CAPF

This is a bit easier to work out. It is the amount both you and your employer paid in over the tax year. You do not need to include any investment returns, or transfers in from other pensions.



My
contributions

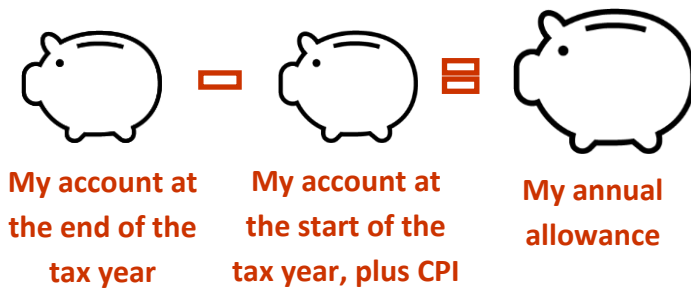
Employer
contributions

My annual
allowance

It can be tough to remember what you and your employer paid in. It is on your annual benefit statement, but you can also ask us and we can tell you.

What about Pension Builder 2014?

Annual Allowance for Pension Builder 2014 is slightly different. While you are an active member, here is how we work out your Annual Allowance but ask us to work this out for you.



If you have left Pension Builder 2014 and stopped paying in, we still aim to add a bonus to your account each year. If your bonus is more than CPI you will use up some of your Annual Allowance.

How will I know if I go over my Annual Allowance?

If you go over the Annual Allowance limit with us, we will let you know by October following the end of the tax year. Your other pension providers will do the same.

As your Annual Allowance cap applies to all your pensions, you might use up small amounts in more than one pension, which added together will push you over the cap. If this happens you will go over the cap without anyone telling you.



It is down to you to keep track of how much Annual Allowance you use.

Will I have to pay tax?

If you go over your Annual Allowance you might have to pay tax on the excess.

For example, if the Annual Allowance is £40,000 but you save £42,000, you only need to pay tax on the £2,000 you go over it by. The charge is taxed as income, so a high tax charge might push you into a higher income tax band.

You can pay the tax by completing a self-assessment tax return and filling in the 'Pension savings tax charges' section. It is your responsibility to pay this. Fill out a return at:



gov.uk/self-assessment-tax-returns

If your charge is more than £2,000, you can ask your us to pay this for you. Find out more about this in our **Scheme Pays leaflet**.

Using your defined benefit "carry forward"

Your Annual Allowance resets each tax year. For defined benefit schemes, any Annual Allowance you have not used in the last three tax years usually carries over. This is called your "carry forward".

You can use this to reduce your tax charge or even get rid of it completely. Ask us how much carry forward you have from your pension with us. Your Annual Allowance will not carry over if you trigger the **Money Purchase Annual Allowance**. Read our leaflet on this to find out more.

This reflects our understanding of current legislation and practice. You should talk to a financial or legal adviser if you need specific guidance or advice.