



Annual Allowance

The 2023 spring Budget introduced changes to the Annual Allowance, these changes were:

- Increasing the Annual Allowance from £40,000 to £60,000
- Increasing the adjusted income threshold from £240,000 to £260,000

The following summary was prepared in June 2023 and a link to this document is here (<https://content.tfl.gov.uk/spring-budget-2023.pdf>) and describes the limits applying in tax year 2023/24. It is not exhaustive and does not cover all possible scenarios. If in doubt you should seek tax advice on your own circumstances.

High earners

If your taxable **Threshold Income** in the tax year exceeds £200,000 this means that your **Annual Allowance** will be reduced if your **Adjusted Income** exceeds £260,000. It is reduced by £1 for every £2 your adjusted income exceeds £260,000, down to a minimum **Annual Allowance** of £10,000.

To calculate whether the taper applies to you, you will need to calculate your taxable **Threshold Income**, this includes:

- Salary
- Performance Award (even if sacrificed under the Sacrifice of Performance Award Scheme)
- Season Ticket Reimbursement
- Any other payments from your employer
- Taxable interest and Dividends (before the application of your tax free allowance)
- Property Income

Reduced by your pension contributions

For Example:

- Salary of £195,000
- Performance Award of £10,000
- Interest and Dividends of £5,000
- Less pension contributions of £9,750

This gives **Threshold Income** of £200,250 meaning that the taper will apply if **Adjusted Income** exceeds £260,000

Note that in the example **Threshold Income** exceeds £200,000 by £250, had pension contributions been at least £250 more or had other income been at least £250 less then the taper would not apply, regardless of the level of **Adjusted Income**. If you are likely to exceed the £200,000 limit you may wish to seek independent financial advice on ways you may be able to organise your finances to avoid exceeding this limit.



Next you will need to determine your **Adjusted Income**.

Adjusted Income

This is your **Threshold Income** plus your **Pension Input** under all pension arrangements less any performance award sacrificed under the Sacrifice of Performance Award Scheme.

Using the examples above:

- Threshold Income of £200,250
- Plus Pension Input of £71,440

This gives an Adjusted Income of £271,690

As **Threshold Income** exceeds £200,000 and **Adjusted Income** exceeds £260,000, the taper applies.

Adjusted Income exceeds £260,000 by £11,690

The Standard Annual Allowance of £60,000 is reduced by half of the excess resulting in a reduced **Annual Allowance** for tax year 2023/24 of £54,155.

Pension Input

This is calculated in different ways depending on the type of pension arrangement.

For defined contribution schemes such as the TfL AVC Plan or the TfL Savings for Retirement Plan, pension input is the total of the amount you have paid in together with the total the employer has paid in.

For defined benefit schemes such as the TfL Pension Fund, it is calculated as the growth of your accrued pension over the year after allowing for inflation measured by CPI.

We calculate your accrued pension at the end of the previous tax year and increase this by the rate of CPI in the September preceding the start of the current tax year, this is then deducted from your accrued pension at the end of the current tax year, the result if a positive amount is multiplied by 16 to determine your **Pension Input** for the year.

For example:

- Accrued Pension at 5 April 2023 of £35,000
- Increased by September 2022 CPI of 10.1%
- Resulting in an adjusted start figure of £38,535
- Accrued Pension at 5 April 2024 of £43,000
- Real increase in pension over the year of £4,465

This gives rise to **Pension Input** of $£4,465 \times 16 = £71,440$



Exceeding the Annual Allowance

If your **Pension Input** exceeds the **Annual Allowance** then you can use any unused **Annual Allowance** from the last 3 tax years, exhausting the earlier year first.

For the example above we have assumed unused Annual Allowance as follows:

2020/21 tax year of £5,000
2021/22 tax year of £8,000
2022/23 tax year of £10,000

Pension Input of £71,440 for 2023/24 exceeds the reduced Annual Allowance of £54,155 by £17,285.

In this case we look to prior year unused Annual Allowance, we use all of the 2020/21 unused allowance of £5,000 and all of the 2021/22 unused allowance of £8,000 and £4,285 of the 2022/23 unused allowance. This results in no **Annual Allowance** charge being payable for 2023/24 and leaves £5,715 of unused 2022/23 allowance to carry forward.

Annual Allowance Charge

If even after using any unused allowance from earlier tax years, your **Pension Input** still exceeds the **Annual Allowance** the excess is subject to a tax charge at your highest marginal rate of income tax.

You can either settle the charge directly with HMRC or if your **Pension Input** exceeds your **Annual Allowance** and the charge exceeds £2,000 you can request this to be paid either from your TfL Savings for Retirement Plan (if you are a member), your TfL AVC Plan if you have one or from the TfL Pension Fund. If you pay the charge through the TfL Pension Fund, then your pension will be reduced to cover the charge.

We include details of your Pensions Input on your annual benefit statement, please take the time to read this section of your benefit statement and check whether you are impacted.

Seek appropriate independent financial advice

This is a complicated area of pensions and we would recommend seeking suitable independent financial advice when considering your options.