Unilever UK Pension Fund

Pension tax – Annual Allowance

July 2020

The Annual Allowance is a complicated area of personal taxation and this leaflet is intended to serve as a guide only. If you think that you may be affected by any of the issues covered then please consider speaking to an independent financial adviser. The unbiased website – www.unbiased.co.uk – has a search facility which can help you find a financial adviser.

The information in this leaflet is based on the legislation that is currently in place. Please read this leaflet accordingly.

This leaflet is set out in five sections:

1. The key concepts
2. The reduced or Tapered Annual Allowance
3. Managing your pension savings against the Annual Allowance
4. If your pension savings are more than the Annual Allowance
5. Telling HMRC about an Annual Allowance tax charge

1. The key concepts

1.1 The Annual Allowance

The Annual Allowance is the yearly amount of tax efficient pension savings you can build up in all registered pension schemes before a tax charge could arise. The value of any registered pension scheme savings you build up above the Annual Allowance will be taxed at your marginal rate of income tax.

Since 6 April 2016, the Annual Allowance has depended on a member's taxable income in the tax year. While the standard Annual Allowance is £40,000, it can reduce or "taper" on a sliding scale to a minimum of currently £4,000 (see Section 2).

Generally, you can carry forward any unused Annual Allowance from the previous three tax years into the current tax year. This increases the amount of Annual Allowance available to you in any particular tax year.

There is a separate Money Purchase Annual Allowance which can have an impact on the amount of Annual Allowance (see point 1.2).

Individuals who build up registered pension savings that are greater than the Annual Allowance have to pay a tax charge on the excess amount. It is your responsibility to declare any Annual Allowance excess on your self-assessment tax return. Unilever does not know about your non-Unilever registered pension savings or your non-Unilever income and so it is important that you are aware of the allowances and keep track of your pension savings.

1.2 Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) is £4,000. The MPAA can apply to you if you flexibly access defined contribution savings, for example, taking income from a flexi-access drawdown fund or receiving an Uncrystallised Fund Pension Lump Sum (these options are not available under the Unilever UK Pension Fund). The MPAA applies to any defined contribution pension savings in the same way as the normal Annual Allowance applies to total defined contribution and defined benefit pension savings; however, you cannot carry forward unused MPAA.

In practice, the administrator of your defined contribution arrangement should let you know if you are subject to the MPAA and you will then have to notify the Unilever Pensions Team (their contact details are at the end of this leaflet). This leaflet does not cover the MPAA in any further detail, but you can find more information at https://www.gov.uk/guidance/work-out-your-allowances-if-youve-flexibly-accessed-your-pension.

1.3 Pension Input Periods

Pension savings are measured against the Annual Allowance over a time period called the "pension input period" or PIP for short.

PIPs are now aligned with the tax year and run from 6 April until 5 April the following year. This is the same for all pension arrangements.

1.4 How are pension savings measured against the Annual Allowance?

For defined benefit plans (for example, the Unilever UK Pension Fund Final salary or Career average plans), the value of the pension savings for Annual Allowance purposes (sometimes called the "Pension Input Amount") is calculated as the increase in the annual amount of pension during the relevant PIP multiplied by a factor of 16. This means that if you build up £1,000 of additional annual pension this would be deemed to be worth £16,000 (for Annual Allowance purposes). Members of defined benefit plans can therefore currently build up their annual pensions by up to £2,500 (£40,000/16) each year tax efficiently (assuming that the member is subject to the standard Annual Allowance of £40,000, has no carry forward and no defined contribution savings in that year). There will, however, be an inflation adjustment for pension savings built up in previous years, so in practice the level of tax efficient increase that can be made to defined benefit pension savings is likely to be higher.

For defined contribution plans (for example, the Unilever Investing plan and other Unilever Additional Voluntary Contribution (AVC) plans), the value of the pension savings is the total contributions made by the member and their employer during the PIP (ignoring investment returns).

To illustrate this at a high level, there is an example below of how the value of pension savings is worked out for a member who has Final salary plan benefits, Career average plan benefits and Company 12.5% contributions paid to the Investing Plan. Although the member is no longer accruing additional years in the Final salary plan, their Final salary plan pension remains linked to their pensionable salary.

At the beginning of the PIP, the member has a Final salary plan pension of £30,000 pa and a Career average plan pension of £3,000 pa, so a total defined benefit pension of £33,000 pa.

At the end of the PIP, the member's Final salary pension has increased by 3% because their Final pensionable salary has increased by 3% as a result of a pay rise. This increases the member's Final salary plan pension to £30,900 pa. The member's Career average plan pension increases because they have accrued pension over the year and also because an inflationary increase is applied to the Career average plan pension that had been earned up to the start of the PIP. This increases the Career average plan pension at the end of the year to £3,900 pa. Overall the defined benefit pension at the end of the year is now £34,800 pa.

The Company 12.5% contributions to the Investing plan were £4,000. The member made no extra voluntary contributions.

To calculate the value of the savings for Annual Allowance purposes, take the defined benefit pension at the end of the PIP i.e. £34,800 pa. Subtract the defined benefit pension at the start of the PIP increased by the inflation protection factor (the 12 month increase in the Consumer Prices Index at the September in the previous tax year) i.e. £33,000 per year plus inflation of 1.7% = £33,561. For the purposes of this example we have used the September 2019 CPI inflation figure applicable for tax year 2020/21.

Finally multiply the answer by 16, so:
£34,800 - £33,561 = £1,239
£1,239 multiplied by 16 is £19,824

We now must add the value of the defined contribution savings. In this case, the member does not make extra voluntary contributions and so the value of the defined contribution savings is the £4,000 paid as Company 12.5% contributions.

Therefore, for this member, the Annual Allowance value of their pension savings is the Annual Allowance value of their defined benefit savings of £19,824 and the Annual Allowance value of the DC amount of £4,000 giving a total of £23,824. This is within this example member's reduced Annual Allowance of £30,000.

However, the calculation is very sensitive to many factors, in particular the level of pay rise for members with significant levels of Final salary plan benefits. For example, if the member's Final salary pension had increased by 5% to £31,500 instead of £30,900, then overall their defined benefit pension, including their Career average plan pension would have increased to £35,400. This would mean the Annual Allowance value of their defined benefit pension savings would have increased from £19,824 to £29,424:

£35,400 - £33,561 = £1,839
£1,839 multiplied by 16 is £29,424

Adding on the Company 12.5% contributions of £4,000 takes the total to £33,424 which is above this member's reduced Annual Allowance of £30,000. Therefore, the extra 2% increase in Final salary plan pension has increased the Annual Allowance value of the pension saving for the year by almost £10,000 and taken this member from comfortably within the Annual Allowance limit to potentially facing a tax charge. However, this member will be able to carry forward any unused Annual Allowance from the previous three tax years to increase their Annual Allowance in this tax year and therefore may not be subject to a tax charge.

1.5 Special arrangements for the 2015/16 tax year

Special rules applied to the Annual Allowance in the 2015/16 tax year because it was a year of transition from a standard Annual Allowance to the Tapered Annual Allowance. If you need further information about the Annual Allowance rules in that year, please contact the expertadministrationteam@unilever.com or 01372 945688.

2. The reduced or Tapered Annual Allowance

2.1 The Tapered Annual Allowance

The reduced or Tapered Annual Allowance was introduced from 6 April 2016. There are two income limits which must be exceeded for the Tapered Annual Allowance to apply – a Threshold Income test and an Adjusted Income test.

For tax years from 6 April 2020, the Tapered Annual Allowance applies to members with a Threshold Income over £200,000 and an Adjusted Income over £240,000. If an individual has a threshold income over £200,000 then for every £2 of Adjusted Income over £240,000, the standard annual allowance is reduced by £1. The minimum Annual Allowance is £4,000.

For tax years between 6 April 2016 and 5 April 2020, the Tapered Annual Allowance applies to members with a Threshold Income over £110,000 and Adjusted Income over £150,000. If an individual has a threshold income over £150,000 then for every £2 of Adjusted Income over £150,000, the standard Annual Allowance is reduced by £1, with a minimum annual allowance of £10,000.

2.2 The “Threshold Income” and “Adjusted Income” tests

The first test is based on “Threshold Income” which is broadly taxable income after relievable contributions you make yourself to a registered pension scheme. Please note this is taxable income not just employment income, so it would include for example rental income, savings income, taxable income from employee share plans and so on.

Threshold Income also includes any employment income that is given up for pension provision under a salary sacrifice arrangement made for the first time on or after 9 July 2015. For example, any change in your voluntary contribution options on or after 9 July 2015 where you continue with an element of fixed term extra voluntary contributions is likely to result in your fixed term extra voluntary contributions counting towards Threshold Income.

For tax years from 6 April 2020, a member who has Threshold Income of £200,000 or less in a tax year will continue to have an Annual Allowance of £40,000.

If Threshold Income exceeds £200,000 then the second test applies, and the individual will need to check their “Adjusted Income” for the tax year. Adjusted Income, assuming you are not contributing to any personal pension schemes, is broadly taxable income after reliefs plus the Annual Allowance value of defined benefit pension savings and defined contribution pension savings across all registered pension schemes.

Under the second test if you have an annual Adjusted Income greater than £240,000, your Annual Allowance will be less than £40,000. For every £2 that your annual Adjusted Income exceeds £240,000, your Annual Allowance is reduced by £1 up to a maximum reduction of £36,000. If you have annual Adjusted Income of £312,000 or more, your Annual Allowance will be £4,000.

The table below indicates the levels of Annual Allowance that would apply at different levels of Adjusted Income for tax years from 6 April 2020:

Adjusted Income	Annual Allowance
£312,000 and above	£4,000
£310,000	£5,000
£300,000	£10,000
£290,000	£15,000
£280,000	£20,000
£270,000	£25,000
£260,000	£30,000
£250,000	£35,000
£240,000 or less	£40,000

The table below indicates the levels of Annual Allowance that apply at different levels of Adjusted Income for tax years between 6 April 2016 and 5 April 2020. These limits will still be used to estimate unused Annual Allowance that can be carried forward from previous tax years.

Adjusted Income	Annual Allowance
£210,000 and above	£10,000
£200,000	£15,000
£190,000	£20,000
£180,000	£25,000
£170,000	£30,000
£160,000	£35,000
£150,000 or less	£40,000

The following table of examples illustrates the impact of Threshold Income and Adjusted Income on the Annual Allowance (assuming no pension savings in other non-Unilever schemes) in the tax year 2020/21. We ignore the effect of any carry forward of unused Annual Allowance:

	Member A	Member B	Member C	Member D
Member profile	Long service with both Final salary and Career average benefits. A recent pay rise has increased the value of their pension savings this year.	Final salary and Career average plan member.	A Career average plan member only who has ceased AVCs and takes cash instead of the Company 12.5% contribution to the Investing plan.	A recent joiner to the Career average plan who has elected to pay some Extra Voluntary Contributions.
Basic Salary	£185,000	£200,000	£280,000	£175,000
Taxable income	£205,000	£240,000	£305,000	£195,000
Plus member pension contributions paid through salary sacrifice made after 8 July 2015	£0	£0	£0	£10,000
Threshold Income	£205,000	£240,000	£305,000	£205,000
Annual Allowance value of pension savings	£40,000	£25,000	£15,000	£20,000
Adjusted Income	£245,000	£265,000	£320,000	£215,000
Personal Annual Allowance	£37,500	£27,500	£4,000	£40,000
Excess above Annual Allowance	£2,500	£0	£11,000	£0
Conclusion	A tax charge arises because the value of Member A's pension savings exceeds the Annual Allowance.	No tax charge because the value of Member B's pension savings does not exceed the Annual Allowance.	A tax charge arises because the value of Member C's pension savings exceeds the Annual Allowance of the minimum of £4,000.	No tax charge because the value of Member D's pension savings does not exceed the Annual Allowance. As a new joiner after 9 July 2015, Member D's member contributions made through salary sacrifice are included in their Threshold income.

Member A and Member C have a potential tax charge in 2020/21. Member A may be able to manage their pension savings to stay within their personal Annual Allowance by for example:

- choosing to take some or all of Unilever's 12.5% contributions on pensionable earnings above the Career average plan higher level as cash rather than a contribution to the Investing plan;
- adjusting any extra voluntary contributions;
- carrying forward any unused Annual Allowance from the previous three tax years.

Member C will struggle to continue their Fund membership and stay within their personal Annual Allowance. They may be able to carry forward any unused Annual Allowance from the previous three tax years, but they will have to take some independent financial advice about how to manage their pension savings in the longer term.

3. Managing your pension savings against the Annual Allowance

You can take some actions to manage the tax charges arising from the Annual Allowance. However, you should note that whilst some members want to avoid the tax charges completely others accept them and, usually with the help of independent financial advice, allow for them in their financial planning.

Two of the choices you may have as part of the annual renewal process directly affect your pension savings for measuring against the Annual Allowance. They also affect the total pension savings you are building up which will eventually be measured against the Lifetime Allowance. You can therefore manage your pension savings against the tax allowances by the choices you make.

These choices are:

- Paying extra voluntary contributions to the Investing plan;
- Choosing to take the Unilever 12.5% contribution as a contribution to the Investing plan if you have pensionable earnings above the Career average plan higher level.

If you think your yearly pension savings are likely to get close to the Annual Allowance, you may choose not to pay extra voluntary contributions and you may decide to take Unilever's 12.5% contribution as cash (less tax and national insurance) rather than as a contribution to the Investing plan (if this applies to you). **Remember, even if you take these actions, you could still exceed the Annual Allowance, particularly if you are subject to the tapered Annual Allowance.**

It is important to remember that you will normally be committed to any decision you make about how you take Unilever's 12.5% contribution until the following 1 October (as long as you have taken part for at least 12 months).

There is more flexibility about reducing or stopping fixed-term extra voluntary contributions if you are affected by the Annual Allowance and/or the Lifetime Allowance, but if you subsequently decide to start them again you will be committed to paying them for 12 months. Please contact the Expert Administration Team on 01372 945688 or expertadminteam@unilever.com for further information.

For eligible employees who would like to manage their Annual Allowance (and/or Lifetime Allowance) position by opting out of the UUKPF and ceasing to build up further pension savings, Unilever offers an alternative salary supplement (**the Unilever Cash Alternative and Risk Benefits Scheme**). Opting out of the UUKPF is an important decision and one you should consider carefully.

4. If your pension savings are more than the Annual Allowance

4.1 Pension Savings Statements

If the Annual Allowance value of your pension savings (the Total Pension Input Amount) exceeds the £40,000 standard Annual Allowance in a tax year, then you will receive a Pension Savings Statement from the Fund's administrators by the 6 October following the end of the tax year.

The purpose of the Statement is to help you work out if you might be liable to an Annual Allowance tax charge. If you receive a Statement, it does not automatically mean that you will have an Annual Allowance tax charge because you may be able to use any unused Annual Allowance carried forward from the previous three tax years to increase your Annual Allowance and offset the excess pension savings. If your pension savings still exceed the Annual Allowance after allowing for unused Annual Allowance carried forward from the previous three tax years then any excess pension savings are taxed at your marginal rate of income tax (the Annual Allowance tax charge).

If your Total Pension Input Amount does not exceed £40,000 in a tax year, you won't receive a Pension Savings Statement; however, it is still possible that you could be subject to an Annual Allowance tax charge. For example, if you have a tapered Annual Allowance of £15,000 and a Total Pension Input Amount of £35,000 you will not receive a Pension Savings Statement. But unless you have sufficient unused Annual Allowance carried forward from the previous three tax years to offset the excess pension savings of £20,000, then any amount not offset will be subject to an Annual Allowance tax charge. It is your responsibility to manage your Annual Allowance and report any pension savings liable to an Annual Allowance tax charge to HMRC on your Self-Assessment tax return. You can request a Pension Savings Statement from the Unilever Pensions Team to help you assess your own position.

4.2 Paying the Annual Allowance tax charge

If you generate an Annual Allowance tax charge in respect of any tax year starting on or after 6 April 2016, then:

- You will either pay the charge directly through the self-assessment process; or

- If your total tax charge exceeds £2,000, then it may be possible for you to request the Fund to pay the tax charge for you in return for a reduction in your pension savings (a process called "Scheme Pays"). Contact the Unilever Pensions Team (see below) for further information about Scheme Pays and the important time limits that apply.

Whether you pay the tax charge directly to HMRC or the Fund pays the tax charge on your behalf ("Scheme Pays"), any excess pension savings above the Annual Allowance that results in a tax charge has to be declared on your self-assessment tax return (see section 5 below).

4.3 Pension savings outside the Fund

Unilever does not take account of any pension savings you are making outside the Fund, for example, contributions to a personal pension. It is your responsibility to measure your pension savings outside the Fund against your available Annual Allowance and to account for any tax due on any excess on your Self-Assessment tax return.

5. Telling HMRC about an Annual Allowance tax charge

You have to tell HMRC about any pension savings subject to an Annual Allowance tax charge as part of your Self-Assessment tax return. You still need to tell HMRC even if you have agreed with the Fund that it will pay the tax charge on your behalf ("Scheme Pays"). The boxes that need to be completed for the Annual Allowance are in the "Pension savings tax charges" section (this is part of the additional information pages).

Further information to help you complete this part of the tax return can be found at http://www.hmrc.gov.uk/helpsheets/hs345.pdf

You don't need to complete this section of the Self-Assessment tax return if your pension savings are:

- below the Annual Allowance for the tax year, or
- above the Annual Allowance but you have unused annual allowance from the previous three tax years that can be carried forward to the current tax year and this means there is no Annual Allowance charge due for the tax year.

Further information

If you have any questions on this, please contact the Unilever Pensions Team:

Phone:	0800 028 0051 (UK only) +44 (0) 1473 622 307 (Overseas)
Email:	unileverpensionsteam@capita.co.uk
Address:	Unilever UK Pension Fund, PO Box 420, Darlington, DL1 9WU

Remember that no-one involved in running the Fund can give you individual financial advice and this leaflet does not constitute financial advice. Please consider taking independent financial advice if you need help with any decisions about your finances. This website, run by IFA promotion, can help you find an independent financial adviser in your area: www.unbiased.co.uk.