Unilever UK Pension Fund

Pension tax – Annual Allowance

July 2021

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. For most people, the Annual Allowance is currently £40,000. If your pension savings in any given tax-year exceed the Annual Allowance you may have to pay an additional tax charge. Under some circumstances your Annual Allowance may be less than £40,000 – if for example you have already taken some money out of a defined contribution scheme, or your total earnings in a year are more than around £200,000.

If you exceed your Annual Allowance in any given tax-year you may not have to pay a tax-charge as you may be able to carry-forward any Annual Allowance that you didn't use in the previous three tax-years. This can be used to reduce the amount you exceed your Annual Allowance and reduce the tax-charge (possibly to nothing).

This leaflet provides a general explanation as to how your Annual Allowance and your pension savings are calculated each year, what your tax charge may be if you exceed the allowance and some of the actions you may consider to manage the charge.

> 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 https://directory.moneyadviceservice.org.uk/ website has a search facility which can help you find a financial adviser.

1. Standard Annual Allowance

The Annual Allowance was introduced on 6 April 2006 and has changed over time. For most people it is currently £40,000. The allowance applies to all pension savings that you make over each tax year (6 April to 5 April). This is sometimes also referred to as the 'Pension Input Period' or 'PIP'.

The amount of pension savings each year that is measured against your Annual Allowance is different for 'defined benefit' and 'defined contribution' schemes. It is often referred to as your **'Pension Input Amount'**.

'**Defined benefit**' scheme
where the pension you receive when you retire is set out in the rules of the scheme and is usually based on the length of service and earnings while in the scheme. Both the **Final Salary plan** and the **DB Career Average plan** are 'defined benefit' schemes.

'**Defined contribution**' scheme
where the pension you receive when you retire depends on the amount of money paid in and the investment returns achieved. Both the **DC Investing plan** and the **Retirement Savings Plan** are 'defined contribution' schemes.

Defined contribution members

For defined contribution schemes, the Pension Input Amount each year is simply the total contributions paid in each year by you and your employer (ignoring investment returns).

Example A – Member of the Retirement Savings Plan

Someone with a pensionable salary of £180,000 a year, and so has a Benefits Envelope of £45,000.

They choose to take the default contribution of 15% of Pensionable Earnings (so a contribution of £27,000) as pension contributions and pay no Extra Voluntary Contributions. Their total Pension Input Amount is therefore £27,000, which is less than the standard Annual Allowance of £40,000.

If this member chose to take the full Benefits Envelope of £45,000 as pension contribution, their Pension Input Amount would be £45,000, which would be over the standard Annual Allowance so could give rise to a tax charge.

Defined benefit members

For defined benefit schemes, the Pension Input Amount is more complicated. It's not the contributions you or your employer make that counts towards the Pension Input Amount. Instead, it is the increase over the year in the value of the pension you have built up.

Pension Input Amount Increase in pension value	=	**16** *times* **Pension at end of tax-year**	*less*	**16** *times* **Pension at start of tax-year** Adjusted for inflation*

*The allowance for inflation is based on the annual increase in the Consumer Prices Index (CPI) in September in the year before the current tax year (so for example, the increase applied for the 2021/22 tax-year is based on the CPI increase from September 2020 which was 0.5%).

Example B – Member of the DB Career Average Plan

Member with same salary and Benefits Envelope as Example A, but this member is in the DB Career Average Plan. £10,665 of the Benefits Envelope is used to cover the Company Cost of DB Career Average and the member chooses to take the rest as additional salary. At the start of the tax-year their DB Career Average plan pension is £5,000.

Over the tax-year, the member gets an additional £562.50 of DB Career Average pension, and the £5,000 pension at the start of the year increases in line with inflation (assumed here to be 3%). Their total DB Career Average Plan pension at the end of the year is then £5,712.50.

The total DB Career Average plan pension at the start of the tax year is adjusted in line with the previous year's inflation (assumed here to be 0.5%) and is then £5,025.

This member's Pension Input Amount is then:

16 *times* £5,712.50 *less* 16 *times* £5,025 = £11,000

This is less than the standard Annual Allowance of £40,000.

If you have Final Salary pension as well as DB Career Average, this must also be included in the Pension Input Amount.

Example C – Member of the DB Career Average Plan with Final Salary pension

The member in Example B also has Final Salary pension at the start of the tax-year of £20,000. The member's salary increased by 6% at the start of the year which, because the Final Salary pension is based on salary over the previous year, isn't fully reflected in the Final Salary pension until the end of the tax-year.

The DB Career Average plan pensions at the start and end of the tax-year are the same as in Example B.

By the end of the tax year, the Final Salary pension has increased by 6% due to the salary rise.**

At the end of the year the member's Final Salary pension is £21,200, which is added to the DB Career Average pension of £5,712.50 to get £26,912.50.

The total pension at the start of the tax year needs to be adjusted in line with the previous year's inflation (assumed here to be 0.5%) and so is £25,125.

This member's Pension Input Amount in this example is then:

16 *times* £26,912.50 *less* 16 *times* £25,125 = £28,600

Which is less than the standard Annual Allowance of £40,000.

** in this case the 3% a year salary cap isn't having an effect, nor is the deferred underpin, but in practice either of these may affect the Final Salary pension at the beginning or end of the tax-year and will be allowed for by the Fund administrator when they calculate the Pension Input Amount.

Defined benefit and defined contribution members

In some schemes, such as the Unilever UK Pension Fund, members can be building up both defined benefit and defined contribution benefits at the same time. If you are a DB Career Average plan member, you may also be building up benefits in the DC Investing Plan, or have some other legacy Additional Voluntary Contribution funds. If so, your Pension Input Amount includes both the defined benefit and defined contribution amounts. They are calculated separately, as described above, and then added together to get the total.

Example D – Member of the DB Career Average Plan with Final Salary pension and DC Investing plan

If the member in Example C takes £20,000 of their Benefits Envelope as DC Investing plan contributions and the remainder as additional salary this amount is added to the amount from the DB Career Average and Final Salary pension of £28,600 (as for Example C) to get a total Pension Input Amount of £48,600.

This is higher than the standard Annual Allowance of £40,000 and the member may need to pay a tax charge.

Most people are subject to the standard Annual Allowance of £40,000, but some people are subject to the Money Purchase Annual Allowance or the Tapered Annual Allowance.

2. Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) is £4,000. This can apply to you if you flexibly access defined contribution savings, for example, taking income from a flexi-access drawdown fund (not available from the Fund) or you receive an Uncrystallised Fund Pension Lump Sum (only available from the Fund on retirement). The MPAA is an additional limit which applies to any defined contribution pension savings (in the same way as the standard Annual Allowance applies to total defined contribution and defined benefit pension savings). The Annual Allowance continues to apply to your total pension savings (with some modifications in the event that your defined contribution savings were more than the 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.

3. The Tapered Annual Allowance

For higher earners the Annual Allowance may be reduced to less than the standard £40,000. If, after certain adjustments, your taxable earnings plus pension savings go over £240,000 in a year, your Annual Allowance will be reduced by £1 for every £2 your earnings are over this amount (the “taper”). The minimum Annual Allowance is £4,000.

There are two tests to your taxable earnings to find out if your Annual Allowance will be reduced.

Threshold Income

The first test is based on "Threshold Income": If your Threshold Income in a year is £200,000 or less, then the Tapered Annual Allowance doesn't apply to you, and your Annual Allowance is £40,000. If it is over £200,000 you need to proceed to the second test.

In broad terms, your Threshold Income can be calculated as follows:

Threshold Income	=	**Total taxable income** Includes all taxable income from employment, rental income, savings income, employee share plans etc. and ignoring any deductions for employee pension contributions	*less*	**Employee pension contributions** Only those that get tax-relief such as those to the Fund	*plus*	**Salary sacrifice pension contributions** Started on or after 9 July 2015

Note: any fixed term extra voluntary contributions you choose to make from 1 October 2021 will be a new salary sacrifice and will therefore count towards Threshold Income.

Adjusted Income

If your Threshold Income is over £200,000 you will need to calculate your Adjusted Income, which is used to calculate what (if any) reduction will apply to your Annual Allowance.

In broad terms, your Adjusted Income can be calculated as follows:

Adjusted Income	=	**Total taxable income** As for Threshold Income	*less*	**Employee pension contributions** As for Threshold Income	*plus*	**Total Pension Input Amount** As calculated to check against your Annual Allowance

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 an 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:

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

Adjusted Income	Annual Allowance
£270,000	£25,000
£260,000	£30,000
£250,000	£35,000
£240,000 or less	£40,000

Note: whilst the Benefits Envelope is not itself taxable earnings, any amount of it that you don't use for pension savings and instead take as extra salary (Benefits Envelope adjustment) will be taxable. Your Benefits Envelope adjustment will therefore increase your Threshold Salary. Also, any of your Benefits Envelope you use for pension saving will also count towards your Adjusted Income.

Example E – Threshold and Adjusted Income for member of DB Career Average plan

We can check whether the member in Example D has a tapered Annual Allowance where they also receive a taxable bonus of £20,000 in this tax-year. Their Pension Input Amount is still £48,600.

To calculate the Threshold Income, take total taxable income, which is £180,000 pensionable salary, plus the £20,000 bonus and £14,335 Benefits Envelope adjustment, and then take off the employee contributions to the pension scheme of £2,250 (5% of Covered Career Average earnings of £45,000). The Threshold Income is therefore £212,085.

Threshold Income is over the £200,000 so we must now calculate the Adjusted Income.

Adjusted Income is the same total taxable income as for Threshold Income (£180,000 pensionable salary, £20,000 bonus, and £14,335 Benefits Envelope adjustment), take off the same employee pension contribution of £2,250 and then add on the total Pension Input Amount of £48,600 (from above). The Adjusted Income is therefore £260,685.

This is over £240,000 so the member will have a Tapered Annual Allowance of £29,657.50 (£40,000 less £1 for every £2 that the Adjusted Income is over £240,000).

This member therefore has exceeded the Tapered Annual Allowance by £18,942.50 and may have to pay an additional tax charge.

4. 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.

Some of the choices you may have as part of the new choices for pension savings 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:

- Whether you chose to use your Benefits Envelope to remain in the DB Career Average plan (if you are eligible);
- How much of your Benefits Envelope is paid into the DC Investing plan (after first taking off the cost of DB Career Average plan, where applicable);
- Paying Extra voluntary contributions to the DC Investing plan.

If you think your yearly pension savings are likely to get close to the Annual Allowance, you may choose to reduce the amount paid from your Benefits Envelope or not to pay extra voluntary contributions.

It is important to remember that you will normally be committed to any decision you make about how you use your Benefits Envelope until the next annual renewal date so it will cross tax-years.

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 normally be committed to paying them for 12 months. Please contact the Expert Administration Team on 01372 945688 or expertadminteam@unilever.com for further information.

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

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.

If your 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 you will not receive a Pension Savings Statement if your Pension Input Amount does not exceed £40,000 so you could be due to pay a charge even though you don't receive a statement.

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 but if you do, any excess pension savings are taxed at your marginal rate of income tax (the 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 after the end of the tax-year from the Unilever Pensions Team to help you assess your own position.

Carry forward unused Annual Allowance

Any of your Annual Allowance (whether or not it is tapered) that you don't use can be carried-forward for use in future years – for up to three years. This does not apply to the Money Purchase Annual Allowance.

For example, for someone who had a tapered Annual Allowance of £35,000 each year since 2019, who in 2021/20 used only £35,000, in 2020/19 used £30,000 and in 2019/18 used £33,000, has £7,000 unused Annual Allowance to carry-forward to 2021/22.

Therefore, if your Pension Input Amount exceeds your Annual Allowance in any given year, there may not be a tax charge to pay if you have not used up all of your Annual Allowance in previous years.

Paying the Annual Allowance tax charge

If you do incur an Annual Allowance tax charge in respect of any tax-year, 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 use 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.

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.**

6. 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 to use 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 your Annual Allowance for the tax year, or
- above your 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.

7. 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 the Money Advice Service, can help you find an independent financial adviser in your area: https://directory.moneyadviceservice.org.uk/.

This leaflet confers no rights to contributions or benefits. Rights to contributions or benefits are conferred solely on the terms and subject to the conditions of the Unilever UK Pension Fund Trust Deed and Rules as from time to time in force. If there are any differences between the Trust Deed and Rules from time to time in force and this leaflet, the Trust Deed and Rules will apply.

This document also contains references to the Trustee. These are to the Unilever UK Pension Fund Trustees Ltd and/or its directors.

Anything in this leaflet about legal or tax issues is based on Unilever's understanding of these issues at the date of issue. Any changes in the laws or HM Revenue and Customs regulations may affect this information.