Unilever UK Pension Fund

Pension tax – Annual Allowance

July 2023

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 for tax years starting on/after 6 April 2023 is £60,000. 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 £60,000 – 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 by which 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, and for tax years starting on/after 6 April 2023, it is £60,000. For the previous few tax years it was £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 £60,000.

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 2023/24 tax-year is based on the CPI increase from September 2022 which was 10.1%).

Example B – Member of the DB Career Average Plan

Someone with a pensionable salary of £180,000 a year, and so has a Benefits Envelope of £45,000. This member is in the DB Career Average Plan. £12,133 of the Benefits Envelope is used to cover the Company Cost of DB Career Average and the member chooses to take the rest as extra taxable pay. 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 £623 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 5%). Their total DB Career Average Plan pension at the end of the year is then £5,873.

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 3.1%*) and is then £5,155.

This member's Pension Input Amount is then:

16 *times* £5,873 *less* 16 *times* £5,155
= £11,488

This is less than the standard Annual Allowance of £60,000.

(Note. This member's earnings are over the Threshold Salary so a futher check is required to ensure the Tapered Annual Allowance wouldn't apply, which in this case it does not – see below for details)

If during your current period of Unilever UK Pension Fund membership you switched from the Final Salary plan to DB Career Average plan membership, increases in your Final Salary plan pension 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 DB Career Average plan pensions at the start and end of the tax-year are the same as in Example B.

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 £5,873 to get £27,073.

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 3.1%*) and so is £25,775.

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

16 *times* £27,073 *less* 16 *times* £25,775
= £20,768

Which is less than the standard Annual Allowance of £60,000.

*If this were for the tax year 2023/24 and therefore inflation of 10.1% were used instead the Pension Input Amount would be zero (it cannot be less than zero and it is set at zero before any DC contributions are then added on).

If you opt-out of and then rejoin the DB Career Average Plan, then your Pension Input Amount for any later period of DB Career Average Plan membership would be calculated in line with Example B (and any previous Final Salary/DB Career Average Plan benefits from any previous period of membership would not be included in that calculation).

Defined benefit and defined contribution members

In some schemes, such as the Unilever UK Pension Fund (the 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 in 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 the remainder of their Benefits Envelope as DC Investing plan contributions (£32,867) and makes extra voluntary contributions over the tax year of £30,000 both these amounts are added to the amount from the DB Career Average and Final Salary pension (£20,768) to get a total Pension Input Amount of £83,635.

This is higher than the standard Annual Allowance of £60,000.

(Note. This member's earnings may be over the Threshold Salary (depending on whether or not the AVCs were made by salary sacrifice) so a futher check is required to ensure the Tapered Annual Allowance wouldn't apply)

Most people are subject to the standard Annual Allowance of £60,000, but some people are subject to the lower Tapered Annual Allowance instead. Some people might also be subject to a lower Money Purchase Annual Allowance.

2. Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) is £10,000. 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 £60,000. If, after certain adjustments, your taxable earnings plus pension savings go over £260,000 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 £10,000.

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 £60,000. 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
=
Step 1 Taxable income: Includes all taxable income from employment, rental income, savings income, employee share plans etc. (Some pension contributions and all salary sacrifice deductions reduce your taxable income)
Minus
Step 2 Adjustment to taxable income: *any pension contributions you are making to a non Unilever pension plan which your pension provider then claims a tax rebate for on your behalf. (These are contributions that did not reduce your taxable pay under step 1 so were paid from income that was taxed or other savings)*
Plus
Step 3 Salary sacrifice add back: fixed term Extra Voluntary Contributions plus the contributions you are making to buy extra life cover and/or voluntary DC ill health cover in the Fund (variable Extra Voluntary Contributions are NOT added back here). (If you are not employed by Unilever and are sacrificing some of your salary for pension contributions to another pension and you started that salary sacrifice after 8 July 2015 you may need to add these here – check with your employer).
Plus
Step 4 Felxible benefits add back: any amount that would have been employment income but for the operation of a flexible benefits arrangement entered into after 8 July 2015. If you are employed by Unilever, the expectation is that this would include the amount of Benefits Envelope you have given up because you are a member of the Career average plan and/or that you chose to have as an employer contribution to the DC Investing Plan or Retirement Savings Plan. [For further information, see www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100

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 Step 1 of Threshold Income	*Less*	**Adjustment to taxable income** Step 2 of Threshold Income	*plus*	**Total Pension Input Amount** As calculated to check against your Annual Allowance

Note: This is a simplified expression of the test. If you are given relief further to a claim for excess relief under 193(4) or 194(1) of the Finance Act 2004 (i.e. where your pension contributions exceed your employment income) or are receiving any lump sum death benefit which is taxable as pension income, then further adjustment steps will be needed to calculate your Adjusted Income. Further information is available from the HMRC guidance manual (see https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100)

If you have an annual Adjusted Income greater than £260,000, your Annual Allowance will be less than £60,000. For every £2 that your annual Adjusted Income exceeds £260,000, your Annual Allowance is reduced by £1, up to a maximum reduction of £50,000. If you have an Adjusted Income of £360,000 or more, your Annual Allowance will be £10,000.
The table below indicates the levels of Annual Allowance that would apply at different levels of Adjusted Income:

Adjusted Income	Annual Allowance	Adjusted Income	Annual Allowance
£360,000 and above	£10,000	£300,000	£40,000
£350,000	£15,000	£290,000	£45,000
£340,000	£20,000	£280,000	£50,000
£330,000	£25,000	£270,000	£55,000
£320,000	£30,000	£260,000 or less	£60,000
£310,000	£35,000		

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 £30,000 in this tax-year. Their Pension Input Amount is still £83,635.

To calculate the Threshold Income, take total taxable income of £177,506, which is £180,000 pensionable salary, plus the £30,000 bonus and minus the employee contributions to the pension scheme of £2,492 less the Extra voluntary contributions of £30,000. Add back the Benefits Envelope given up for pension of £45,000. The Threshold Income is therefore £222,506 or if the Extra voluntary contributions are made by salary sacrifice it is £252,506

Either way, the 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 (£177,506) and then add on the total Pension Input Amount of £83,635 (from above). The Adjusted Income is therefore £261,141.

This is over £260,000 so the member will have a Tapered Annual Allowance of £59,430 (£60,000 less £1 for every £2 that the Adjusted Income is over £260,000).

This member therefore has exceeded the Tapered Annual Allowance this year.

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 directly affect your pension savings for measuring against the Annual Allowance. They also affect the total pension savings you are building up which may eventually be measured against the Lifetime Allowance. See the website (www.uukpf.co.uk and click on 'tax allowances' for more information on the Lifetime Allowance. You can therefore manage your pension savings against the tax allowances by the choices you make.

These choices are:

<u>If you are a Unilever employee eligible for membership of the Fund</u>

- Whether you choose to remain in or re-join the DB Career Average plan (if you are eligible).
- How much of your Benefits Envelope you choose to use as an employer DC contribution to the DC Investing Plan or Retirement Savings Plan (whichever one applies to you).
- How much you choose to make as Extra Voluntary Contributions.
- How much you choose to pay as pension contributions to a personal pension plan.

<u>If you are not a Unilever employee</u>

- Whether or no you join your current employer's pension plan, and whether and how much extra you to save in it (if you have that option).

- Whether and how much you choose to pay as pension contributions to a personal pension plan.

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 standard Annual Allowance in a tax year (£60,000 from 2023/24, or £40,000 in the last few tax-years), 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 the standard Annual Allowance 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 unless your Pension Input Amount exceeds £60,000 so you could be due to pay a charge if your Pension Input Amount exceeds your Tapered Annual Allowance 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 2020, who in 2022/23 used £35,000, in 2021/22 used £30,000 and in 2020/21 used £33,000, has £7,000 unused Annual Allowance to carry-forward to 2023/24.

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

Your Pension Savings Statement will 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 and the Trustee's understanding of these issues at the date of issue and is a high level guide only. Neither Unilever nor the Trustee can give you tax advice in relation to the application of tax rules and it is your responsibility to take your own advice in relation to how the Annual Allowance would apply in your own circumstances. Any changes in the law or HM Revenue and Customs rules or practice may affect the information in this leaflet