Environment Agency
Pension Fund

September 2024

The tax controls on pension savings

About this guide

The Environment Agency Pension Fund (EAPF) is part of the Local Government Pension Scheme (LGPS) and is governed by the LGPS regulations.

This guide is for all employees who have joined the LGPS and who want to know more about the tax issues that affect their pensions savings.

The LGPS is registered with HM Revenue and Customs (HMRC), which means that you receive tax relief on your contributions as they're deducted from your pay.

However, there are two HMRC limits on the amount of pension savings you can have before you may have to pay a tax charge. This is over and above any tax due under the PAYE system on your pension once it's in payment.

The two limits on pension savings are known as the annual allowance and the lifetime allowance; in this factsheet we'll take a brief look at these allowances. Most people will be able to save as much as they wish with full tax relief, as their pension savings will be less than these allowances.

What we'll cover in this factsheet

To make it easier to navigate through our factsheet, you can click on a topic below and you'll be taken straight to that section.

- Annual allowance (AA)
- If you've transferred a previous pension into EAPF
- If your pension was reduced following a divorce
- When you're most likely to have a tax charge
- Exceeding the AA
- Money purchase annual allowance (MPAA)
- Tapered annual allowance
- Definition of Threshold or Adjusted income
- Abolition of the Lifetime Allowance and the introduction new allowances
- Protections from the LTA tax charge
- Applying for Fixed and Individual protections

Annual allowance

What is the annual allowance?

The annual allowance (AA) is the amount your pension savings can increase in any one year before you may have to pay a tax charge.

From 6 April 2014 to 5 April 2023, the AA was set at £40,000. However, from 6 April 2023, the AA has increased to £60,000. The AA also applies in the year you take your benefits, although there's an exemption in the case of severe ill health retirement or on death.

The period over which pension savings are measured is the same as the tax year and runs from 6 April to 5 April. Generally speaking, any pension benefits you have in tax registered pension arrangements where you've paid contributions during the tax year (or your employer has paid contributions on your behalf) are included in calculating your pension savings in that tax year.

Even if the value of your pension savings increase by more than the AA in a year, you may not have to pay an AA tax charge. This is because you can use any unused AA from the last 3 years (known as Carry Forward) to offset any excess savings in the current year. To carry forward unused AA from an earlier year, you must've been a member of a tax registered pension scheme in that year.

Example showing how 'Carry Forward' works

Pension savings in the EAPF @ 5 April 2023 (2023/24)	£80,000

Tax year of pension savings	Pension savings in the EAPF for that tax year	Unused allowance from that tax year (Carry Forward)*
2022/23	£25,000	£15,000
2021/22	£28,000	£12,000
2020/21	£32,000	£8,000

'Gross' excess pension savings = £80,000 - £60,000 (2023/24 annual allowance)
= **£20,000**

Total Carry Forward available = £15,000 + £12,000 + £8,000
= £35,000

In this example there will be no AA tax charge to pay as the Carry Forward is higher than the excess pension savings.

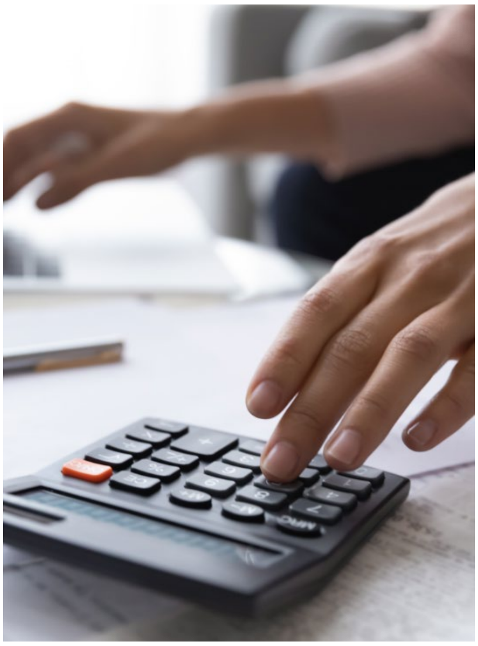
Where Carry Forward is used to offset excess pension savings, the earliest year is used first. Therefore, as only £20,000 of the member's Carry Forward was needed to completely offset their excess pension savings for 2023/24, this means that £15,000 of Carry Forward from 2022/23 still remains, which could be used to offset any excess pension savings in 2024/25.

Unused Carry Forward = £35,000 - £20,000
= £15,000

*This example assumes that the member hasn't built up any other pension savings during the 2020/21 – 2022/23 tax years, nor were they subject to the 'tapered' annual allowance.

Most people won't be affected by the AA tax charge because the value of their pension savings won't increase in a tax year by more than the AA. If it does, they're likely to have unused allowance from previous tax years that can be carried forward to offset any excess.

How can I work out if I may be affected by the AA?



Working out whether you're affected by the AA is quite complex, but this should help you work out your general position.

In general terms, the increase in the value of your pension savings in a year is calculated by working out the value of your benefits immediately before the start of the tax year (6 April) and revaluing them by inflation (currently using higher of Consumer Prices Index (CPI) or 0%). This figure is then compared with the value of your benefits at the end of the tax year (i.e. the following 5 April).

In a defined benefit scheme like the LGPS, the value of your benefits is calculated by multiplying the amount of your pension by 16 and adding any separate lump sum you're automatically entitled to from the pension scheme.

If the difference between:

a) The value of your benefits immediately before the start of the tax year + CPI (the opening value);

and

b) The value of your benefits at the end of the tax year (the closing value) including any contributions you've paid into the EAPFs in-house Additional Voluntary Contribution (AVC) arrangement in the year

is more than the AA (i.e. if (b) – (a) is more than the AA), you may have to pay a tax charge. The method of valuing benefits in other schemes may be different to the method used in the LGPS.

What happens if I transfer a previous pension into the EAPF?

If you elect to transfer pension rights into the LGPS from a public service pension scheme that takes part in the public sector transfer 'club', then any increase in benefits as a result of the transfer being calculated under 'club' terms counts towards your pension savings in the LGPS in the year the transfer payment is received.

In addition, if you combine any previous LGPS benefits with your current EAPF service, then any increase in value to your earlier benefits will count towards your pension savings.

Please note that the pension you're credited with following a transfer in from a private sector scheme (such as an insurance company, or a previous occupational pension scheme that isn't a public service pension scheme) doesn't count towards your pension savings in the LGPS in the year the transfer payment is received. The transfer amount will be included in your opening and closing values for the following tax year and will have a minimal effect on your pensions savings for that year.

What happens if I have a Pension Sharing Order following divorce or dissolution of a civil partnership?

If your pension benefits in the LGPS are reduced following a Pension Sharing Order (known as a 'pension debit') due to divorce or dissolution of a civil partnership, then for the purposes of calculating the value of your pension savings in the LGPS, the reduction in your benefits is ignored in the year that the Pension Sharing Order is applied to your benefits.

Vice versa, if, following a Pension Sharing Order, your benefits are increased (as a separate entitlement known as a 'pension credit'), the increase in your benefits is ignored in the year that the Pension Sharing Order is implemented.

What happens if I retire due to permanent ill health?

If you retire on the grounds of permanent ill health **and** an independent registered medical practitioner certifies that:

- **You're unlikely to be able to work (in any capacity) before your state pension age** - your benefits **will not** be tested against the AA; this means that your EAPF pension benefits are not at risk of exceeding the AA for that year, even if your benefits are enhanced.

- **You're likely to be able to work in some capacity before your state pension age** - your benefits **will** be tested against the AA, as normal; however, if, having met this criteria, you retired on Tier 1 or Tier 2 ill health, your retirement benefits will have been enhanced, which means that you're more likely to be at risk of exceeding the AA (and, potentially, be subject to the AA tax charge).

You're most likely to be affected by the AA tax charge if you:

- Have a lot of scheme membership that's linked to final salary and you've had a significant pay increase

- Pay high levels of AVCs or additional pension contributions (APCs), or have been awarded a lot of additional pension in the LGPS by your employer

- Transferred a pension into the EAPF from another public service pension scheme that takes part in the public sector transfer 'club' and your new salary is much higher than it was in your previous employment

- Combined previous LGPS final salary service with your current EAPF service and your new salary is much higher than it was in your previous employment.

We'll inform you automatically before 6 October, following the end of the relevant tax year, if your LGPS pension savings in that tax year were more than the AA.

We'll also tell you how much the value of your LGPS benefits have increased by and the amount of any AVCs you've paid during that tax year.

What happens if my pension savings increase by more than the AA?

If you exceed the AA in any year and you're unable to offset the whole of the excess against your carry forward of unused allowance, you're responsible for reporting this to HMRC on your self assessment tax return.

You'll also have to pay a tax charge (at your marginal rate) on any excess that can't be offset by your unused allowance.

If you have an AA tax charge, you may ask the EAPF to pay some, or all of the tax charge on your behalf; this option is called Scheme Pays. The tax charge would then be recovered as a deduction from your pension benefits.

If you want to use the Scheme Pays option for an AA tax charge that occurred in the 2023/24 tax year, you must make an election by 31 July 2025, though if your tax charge is for less than £2,000, or you have a 'tapered annual allowance'*, an election must be made before 31 December 2024. If you plan to use the Scheme Pays option, you'll also need to declare this on your 2023/24 self- assessment tax return.

However, if you're retiring and become entitled to all of your benefits from EAPF, you must tell us well before your retirement, as you must elect to use Scheme Pays before we process your retirement. If you want an estimate for the Scheme Pays option, please make sure you've contacted us with your request by the date specified in your pension savings statement.

If you need to contact Capita, you'll find their details at the end of this factsheet, or you can visit **www.eapf.org.uk/contact**

For more information on Scheme Pays, please see our 'Annual Allowance Scheme Pays – Questions & Answers' factsheet on our website at **www.eapf.org.uk/resources/publications**

You can also use our online 'Scheme Pays' tool at **www.eapf.org.uk/schemepays** to see how to apply.

*Please see the section 'Tapered annual allowance' for more information.

Example showing the increase in pension savings for an active member of the LGPS throughout 2023/24

Working out the 'opening value' of the member's benefits for 2023/24 (i.e. at 5 April 2023)

Career average (CARE) pension built up to 31 March 2022	=	£11,000
Pensionable pay for the year 1 April 2022 to 31 March 2023	=	£60,000
Pensionable pay for the period 1 to 5 April 2023 (5 days)	=	£833
Pensionable pay for final salary benefits	=	£60,000

Scheme membership = 23 years & 5 days (8 years in the old 80ths scheme, 6 years in the 60ths scheme and 9 years & 5 days in the CARE scheme)

The total CARE pension at 31 March 2022 is revalued by CPI (3.1%). The total CARE pension at 31 March 2023 isn't revalued until 6 April 2023, which is why it isn't included here (as this part of the calculation is set at 5 April 2023).

In addition, the inflationary increase (determined by the Government) to apply to get the 'opening value' is 10.1%

			£
Annual pension	8 / 80 x £60,000	=	6,000.00
	6 / 60 x £60,000	=	6,000.00
	£11,000 + 3.1%	=	11,341.00
	£60,000 / 49	=	1,224.49
	£833 / 49	=	17.00
Total annual pension			**24,582.49**
Multiply by 16			**393,319.84**
Add lump sum	8 x 3 / 80 x £60,000		18,000.00
			411,319.84
Inflationary increase			+ 10.1%
To give an opening value of			**452,863.14**

We don't include any AVCs paid in the opening value.

You'll see below how we work out the closing value of the member's benefits.

Working out the 'closing value' of the member's benefits for 2023/24 (i.e. at 5 April 2024)

Career average (CARE) pension built up to 31 March 2023	=	£12,565.49 (£11,341+£1,224.49)
Pensionable pay for the year 1 April 2023 to 31 March 2024	=	£64,000
Pensionable pay for the period 1 to 5 April 2024 (5 days)	=	£900
Pensionable pay for final salary benefits	=	£64,000

Scheme membership = 24 years & 5 days (8 years in the old 80ths scheme, 6 years in the 60ths scheme and 10 years & 5 days in the CARE scheme).

The total CARE pension at 31 March 2023 is revalued by CPI (10.1%). The total CARE pension at 31 March 2024 isn't revalued until 6 April 2024, which is why it isn't included here (as this part of the calculation is set at 5 April 2024).

AVCs paid between 6 April 2023 to 5 April 2024 = £1,000

Annual pension	8 / 80 x £64,000	=	6,400.00
	6 / 60 x £64,000	=	6,400.00
	£12,565.49 + 10.1%	=	13,834.60
	£64,000 / 49	=	1,306.12
	£900 / 49	=	18.37

Total annual pension		**27,959.09**
Multiply by 16		**447,345.44**
Add lump sum	8 x 3 / 80 x £64,000	19,200.00
Add AVCs paid in this year		1,000.00
To give a closing value of		**467,545.44**

Working out the increase in value during 2023/24

The increase in the member's benefits over the year to 5 April 2024 is:

£467,545.44 - £452,863.14 = **£14,682.30**

This member has an annual allowance of £60,000 so there is no AA charge for this period, as the increase in the member's benefits is less than £60,000.

In addition, and assuming that the member hasn't contributed to another pension arrangement during 2023/24, they've £45,317.70 of unused AA from 2023/24 (£60,000 - £14,682.30) to carry forward to 2024/25.

Money purchase annual allowance (MPAA)

Although LGPS rules don't allow payment of money purchase AVCs before payment of main scheme benefits, it's possible to transfer the AVCs out of the scheme where they can be accessed flexibly.

If you choose to access your AVCs flexibly or any other pension savings in a money purchase arrangement, you'll trigger the MPAA. The MPAA, which came into effect from April 2015, has a limit of £10,000. This reduced to £4,000, with effect from 6 April 2017, but increased again to £10,000 from 6 April 2023. If you exceed this limit by paying AVCs or contributions into another money purchase arrangement, then a tax charge will apply (unlike the AA, the MPAA excess can't be reduced by using any unused MPAA from previous years). Please note that the MPAA is included within your standard AA limit of £60,000.

Tapered annual allowance

Further reduction in the AA for high earners from April 2016

From 6 April 2016, changes to the AA rules introduced a 'tapered annual allowance' (TAA) that could affect people with a taxable income above the 'threshold income' (please see definition below).

Under the TAA rules, the standard AA reduces by £1 for every £2 of 'adjusted income' (please see the definition of 'adjusted income', below). If you've got adjusted income over £150,000 for any tax years between 2016/17 and 2019/20, adjusted income over £240,000 for any tax years between 2020/21 and 2022/23, or if you've got adjusted income over £260,000 for tax year 2023/24 onwards, your AA will be tapered and subject to the following minimum amounts.

Tax year(s) applicable	Threshold Income	Adjusted Income – tapering starts	Minimum Tapered Annual Allowance	Maximum Reduction in AA
2016/17 – 2019/20	£110,000	£150,000	£10,000	£30,000
2020/21 – 2022/23	£200,000	£240,000	£4,000	£36,000
2023/24 onwards	£200,000	£260,000	£10,000	£50,000

Definition of 'Threshold income'

'Threshold income' is bbroadly equal to your taxable income after the deduction of your total pension contributions (including any AVCs you've paid into the EAPFs in-house AVC) in a tax year.

Before 2020/21, if your threshold income was £110,000 or less, you wouldn't be subject to the TAA restriction, regardless of the level of your adjusted income. From 2020/21 onwards, the threshold income limit rose to £200,000. Please note that anti-avoidance rules also apply.

Definition of 'Adjusted income'

In broad terms your 'adjusted income' is generally your threshold income plus the value of your pension savings.

If you exceed the standard AA, we'll send you a pension savings statement which will tell you the value of the pension savings you made in the EAPF during the tax year that will count towards your adjusted income.

Abolition of the Lifetime Allowance and the introduction new allowances

What was the lifetime allowance?

The Lifetime Allowance (LTA), which was £1,073,100 at as 5 April 2024, was the total capital value of all the pension benefits you could have built up without having to pay a tax charge when you drew them. If the value of your pension benefits when you drew them was more than the LTA, you'd have to pay a charge tax on the pension benefits in excess of the LTA.

The LTA covered any pension benefits you may have had in all tax registered pension arrangements – not just the LGPS. However, it didn't include any state retirement pension, state pension credit or any survivor's or dependant's pension you may be entitled to.

On 6 April 2024, the LTA was abolished and replaced with the Lump Sum Allowance and Lump Sum & Death Benefit Allowance.

What is the Lump Sum Allowance and Lump Sum & Death Benefit Allowance?

The Lump Sum Allowance' (LSA), which is currently set at £268,275, limits the amount of tax free lump sums (and the tax free elements of lump sums) that you can take in your lifetime, across all pension schemes you may be a member of. For a lump sum to be paid tax free, you'll need to have sufficient LSA available, as well as sufficient Lump Sum & Death Benefit Allowance (LSDBA) available, too. The LSDBA, which is currently set at £1,073,100, limits both the tax free lump sums that you can take **and** any tax free death grant lump sums that, in the event of your death, would be paid on your behalf. Consequently, if you have sufficient LSA available, you will usually have sufficient LSDBA available, too (unless you've taken a Serious Ill Health Lump Sum from another pension arrangement, which reduces your available LSDBA).

Therefore, every time you take a tax free lump sum (or take a lump sum that contains a tax free element) from a registered pension arrangement after 5 April 2024, you use up your available LSA and LSDBA. Once you've used up your LSA, any further lump sums paid to you would simply be taxed at your marginal rate.

How do pension benefits taken before 6 April 2024 impact the LSA?

If you've already taken payment of any pension benefits before 6 April 2024, this will have an impact on the amount of tax free lump sums that can be taken after 5 April 2024. However, how it impacts your LSA depends on what action you decide to take when you take payment of your EAPF benefits:

(A) Default option – previous LTA % used taken into account

Any pension benefits taken before 6 April 2024 will have used up part of the 'old' LTA, which is usually expressed as a percentage amount; to work out your reduced LSA, we'll need to:

1. Convert the LTA percentage(s) you've already used up into a monetary amount, based on an LTA of £1,073,100 (unless you hold a valid /Individual/Fixed Protection certificate, where, instead, you'd used your protected LTA amount)

2. Multiply (1) by 0.25

3. Deduct (2) from your available LSA and available LSDBA

4. If a tax free lump sum becomes payable after 5 April 2024 **and** is less than your reduced LSA and reduced LSDBA from (3) = **your new lump sum is paid tax free!**

5. If a tax free lump sum becomes payable after 5 April 2024 **and** is more than your reduced LSA and reduced LSDBA from (3) = **the amount in excess of your reduced LSA is taxed at your marginal rate**

(B) Apply for Transitional Tax Free Amount Certificate option – only tax free lump sums (and tax free elements of lump sums) paid are taken into account

If you've taken any tax free lump sums (or tax free elements of a lump sum) before 6 April 2024, you may wish to apply for a Transitional Tax Free Amount Certificate (TTFAC) from the body (or bodies) paying your pension benefits; this ensures that **only** tax free lump sums paid (and tax free elements of lump sums paid) before 6 April 2024 and after 5 April 2024 are deducted from your available LSA and available LSDBA. **If you plan to apply for a TTFAC(s), please ensure that you:**

- **Request them from the body (bodies) already paying your pension benefit, and**
- **Provide a copy of your TTFAC(s) with your completed retirement option forms.**

However, the maximum lump sum you can receive (whether entirely tax free or not) has **not** changed, and this is still limited to approximately 25% of the capital value of the pension benefits being taken at the time.

For more information on the LSA and LSBA,
please visit **www.gov.uk/tax-on-your-private-pension/lump-sum-allowance**

In addition to TTFACs, are there any other protections in respect of the LTA being abolished that I could apply for?

Prior to the LTA being abolished on 6 April 2024, it was reduced from £1.25m to £1m on 6 April 2016. Consequently, two new protections were introduced from 6 April 2016 for members whose total pension savings were valued* at above £1m on 5 April 2016; these were Individual Protection 2016 (IP2016) and Fixed Protection 2016 (FP2016).

If you already have IP2016 or FP2016, your LSA and LSBDA may be greater than the standard £268,275 applicable today.

*Valued as (20 x pension @ 5 April 2016) + automatic lump sum @ 5 April 2016 + AVC fund @ 5 April 2016

+

You'll also be subject to restrictions on where and how you can transfer benefits. It's a condition of FP2016 that the amount of benefit you can build up will be limited, so if you have FP2016, and wish to keep it, you needed to stop your contributing membership before 6 April 2016.

If you lose FP2016, you must inform HMRC within 90 days.

Please note that you can't apply for FP2016 if you continued contributory membership after 5 April 2016, as you would not meet the requirements for keeping this protection.

Applying for Fixed and Individual Protection 2016

HMRC have introduced an online self-service for pension scheme members to apply for IP2016 or FP2016. Once you've successfully applied for protection, the online service will provide you with a reference number, which you'll need to keep and give to Capita.

Please note that the deadline for applying for IP2016 or FP2016 is 5 April 2025.

Before applying you'll need:

- An account for HMRC online services - you can set one up when you start your application
- To know what your pension(s) were worth on 5 April 2016 and a breakdown of the amount

If you don't know this information, you can ask your pension scheme administrator. If you have more than one scheme, add the amounts from each scheme together.

For more information or to apply online, please visit www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance

It's important to remember that most people will be able to save as much as they wish with full tax relief as their pension savings will be less than the annual and lifetime allowances.

More information

More information on the tax rules is available on HM Revenue and Customs website using the links below:

www.hmrc.gov.uk/pensionschemes/understanding-aa.htm
www.hmrc.gov.uk/pensionschemes/pension-savings-la.htm

General information on the Local Government Pension Scheme can be found at **www.eapf.org.uk** and **www.lgpsmember.org**

Contact details

If you have any questions regarding your pension entitlement you can contact our pension administrator, Capita, by:

Using the **'Ask us a question'** form on our website at **www.eapf.org.uk**

Emailing **info@eapf.org.uk**

Following on X
@EAPensionFund

Calling **0800 121 6593**
+44 114 452 5008 (overseas)

Sending your query to
Capita
11b Lingfield Point
Darlington, DL1 1AX

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