Annual Allowance & Lifetime Allowance
Impact of changes from April 2016

What you need to know

From April 2016, the Government is restricting tax benefits for the higher paid by:

- reducing the total amount of pension savings you can build up without incurring supplementary tax charges at retirement, by reducing the **Lifetime Allowance (LTA)**, and
- reducing the level of contributions you can get tax relief on each year by changing the **Annual Allowance** rules.

If you expect to be caught by these changes you may decide to accept the extra tax costs, or you may wish to take action such as:

- reducing the contributions that you make to pension savings,
- asking the Company to pay you cash in place of making pension contributions,
- applying for a form of protection from HMRC

What is the Annual Allowance?

The Annual Allowance (AA) is the maximum total contribution that can be paid into your pensions in one year by you and your employer, without incurring a tax charge.

What is changing from April 2016?

The standard AA is £40,000. However, if your **adjusted income** is more than £150,000 from the 2016/17 tax year onwards, you will have an AA of less than £40,000.

Who is excluded?

If your **threshold income** is £110,000 or less, these new rules will not apply. Even if your **adjusted income** is over £150,000, you will still have an AA of £40,000.

What does 'adjusted income' include?

All UK **taxable income** before any deduction for personal contributions to a pension, plus the pension contributions that Xerox will make and any pension input amounts (if you were a member of the Final Salary Scheme and have retained 'salary linkage').

What does 'threshold income' include?

All **taxable income** (excluding pension contributions). But, any contributions paid as a result of any new salary sacrifice after 8 July 2015 will be included.

What does 'taxable income' include?

All sources of income such as salary, bonus, benefits in kind, commission, rental income, dividends and interest on savings, less certain reliefs such as charitable donations. Please note that this list is not exhaustive.

continued overleaf

Important note

This summary is issued by Xerox and not by the Trustees of the Xerox Pension Schemes. It is based upon information available at January 2016 and maybe subject to change as legislation is passed. The information is not and should not be taken as financial advice. You should take independent financial advice before taking any financial decisions – Xerox is not permitted to give financial advice.

How will the Annual Allowance (AA) be tapered if you have an adjusted income of more than £150,000?

From April 2016, the standard AA will be reduced by 50p for each £1 of adjusted income above £150,000, until it reaches £10,000 for adjusted incomes of £210,000 and above.

If I might be affected, what do I need to consider?

You should consider whether you need to take action to prevent tax charges. You should review your expected income and pension contributions for 2016/17. If you are likely to be affected you may wish to reduce your contributions or consider taking a cash allowance instead of Xerox continuing to make further pension contributions.

What happens if I exceed the AA?

You will have to declare it on your tax return and pay income tax on the excess at your marginal rate.

Where can I go for more information?

You should talk to your financial adviser and/or go to the HMRC website. Xerox is not able to help you with this matter.

What is the Lifetime Allowance?

The Lifetime allowance (LTA) is the maximum value of your total pension benefits you can build up over your lifetime without incurring a tax charge. The LTA is currently £1.25 million.

What is changing from April 2016?

The standard lifetime allowance will be reduced to £1 million from 6 April 2016. Pension savings in excess of the LTA will be subject to the LTA tax charge as detailed below. The government has committed to increasing the LTA each year from 6 April 2018 in line with Consumer Prices Index.

Will this change affect me?

You will need to consider whether the total combined value of your pension savings may exceed the LTA when you take your benefits. This will include all defined contribution (DC) savings and any defined benefit (DB) pensions you are entitled to.

How to value a defined contribution (DC) scheme

It is the combined value of all of your pension funds when you take your benefits.

How to value a defined benefit (DB) scheme

It is the starting level of your annual pension multiplied by 20, plus any tax free lump sum and AVCs.

How do I apply for protection?

Two new forms of protection against the lowered LTA will be available – see HMRC website.

What happens if I exceed the LTA?

You will pay a tax charge on any value of benefits in excess of the LTA when you take your benefits.

If I might be affected, what do I need to consider?

You should consider whether you need to take any action to prevent any tax charges.

If you are likely to be affected you may wish to consider whether you should apply to HMRC for protection, reduce your contributions or consider taking a cash allowance instead of Xerox continuing to make further pension contributions.

More information on the Annual and Lifetime Allowances can be found on the UK Government website: www.gov.uk/tax-on-your-private-pension