

Annual allowance tax charge for hospital doctors

The Annual Allowance tax charge has been around since 2011/12. So why has it only become a big issue in recent years? There are a few reasons:

- The allowance went down from £50,000 to £40,000 in 2014/15.
- Carry-forward figures have been used up over time.
- Tapering was introduced in 2016/17

The basic principle is as follows – Each year, you have to compare your pension growth with your Annual Allowance (AA). If it is more, you have to pay tax on the difference, at your marginal rate of tax (either 40% or 45%).

If you have unused carry-forward amounts from the previous 3 years, you can use these to reduce your tax bill, hopefully down to zero.

Definitions:

Pension growth – This is not how much you and your employer pay into the scheme. Rather, it is calculated by HSC Pensions using a complicated formula. You should receive an AA statement each year, which you should be able to access from your Members Self Service portal.

Annual Allowance – The default amount for this is currently £40,000, but it can be as low as £10,000 if tapering is involved.

Tapering

Sorry, but we need more definitions:

Threshold income – In very simplistic terms, this is your total taxable income less employee's superannuation. If all you have is your NHS salary, your threshold income will be the taxable pay as shown on your P60. If you have other income (both medical and non medical), it will have to be added on.

Adjusted income – In very simplistic terms, this is your threshold income plus your pension growth.

Tapering rules up until 2019/20 – If your threshold income was under £110,000, you didn't need to worry about tapering. If it was above £110,000, you then needed to calculate if your adjusted income was over £150,000. If it was, you were subject to tapering, and your AA could be reduced to as little as £10,000.

Tapering rules from 2020/21 – The threshold income limit was raised to £200,000, and the adjusted income limit was increased to £240,000. This was a huge improvement, and has taken a lot of doctors out of the taper net.

Anything else? – You don't have to pay the tax immediately. Instead, you can choose to have it paid out of your pension pot using a 'scheme pays' election. Obviously this will affect your final pension when you retire. I am not a Financial Advisor, so can't advise on whether this is a good idea.

There is a time limit to make the election. Also, please note that you can't make an election after you take your pension.

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