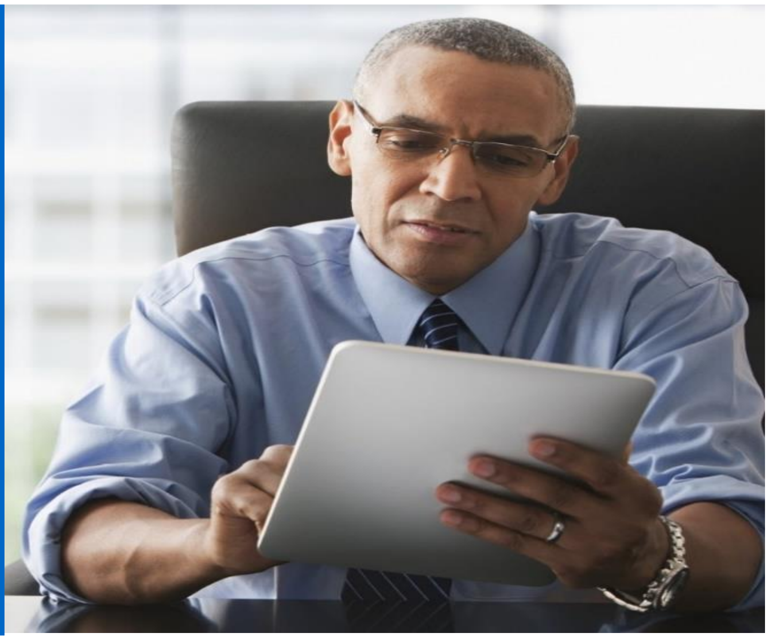
Annual Allowance and Lifetime Allowance

Do these pension tax relief limits impact you?



Pensions can be a tax-efficient way of saving for your retirement, but did you know that there are limits to the tax advantages? Tax is a personal issue and it is difficult for us to know exactly who might be impacted by the allowances. We have prepared this flyer to help you to determine whether or not you might need to consider taking action.

There are two key allowances to consider:

- **The Annual Allowance (AA)** – this is the annual limit for tax-efficient pension savings.
- **The Lifetime Allowance (LTA)** – this was the overall limit for tax-efficient pension savings over your lifetime. The Government has announced the intention to remove the Lifetime Allowance from 6 April 2024 and confirmed there will be no Lifetime Allowance tax charge during the 2023/24 tax year.

In recent years, the Government has announced several changes to the Annual Allowance. Therefore, it's important that you know where you stand in relation to this, and what the options are for you if you are or might soon be impacted. You can exceed the Annual Allowance, but if you do so, you may need to pay additional tax.

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Annual Allowance

*The **Annual Allowance** (**AA**) is the annual amount you can save tax-efficiently into a pension*

- *The AA is currently set at a 'standard' level of £60,000 of pension savings each tax year, but there is a different level for higher earners.*
- *Your AA will reduce from £60,000 if your 'adjusted income' is more than £260,000.*
- *The AA reduces in proportion to income, ultimately reaching £10,000 if your 'adjusted income' is £360,000 or more.*

You are allowed to go over the AA, but this will trigger a tax charge. You should note that lower limits and income thresholds applied prior to 6 April 2023.

What does 'adjusted income' include?

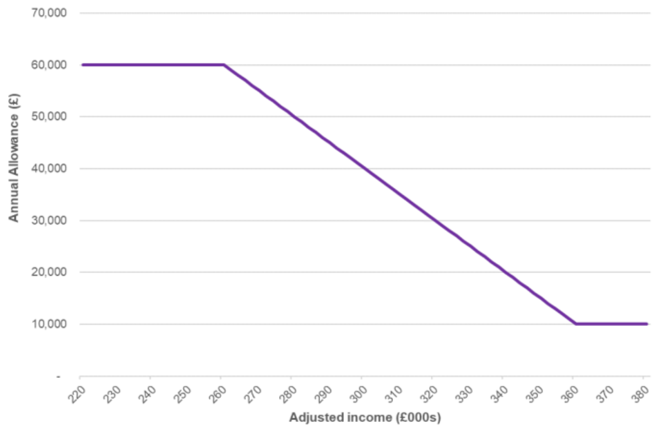
Adjusted income includes all taxable income (including anything that isn't from Eaton, like rent or investment income) plus the 'value' of your annual pension savings.

For members of a Defined Contribution (DC) pension plan, the 'value' of pension savings is the annual amount of contributions paid into your pension plan.

For members of a Defined Benefit (DB) pension plan, the 'value' is calculated as 16 times the increase in your pension over the year, after allowing for inflation.

How will the AA be tapered if you have an adjusted income of more than £260,000?

Since 6 April 2023, the £60,000 AA is reduced by 50p for each £1 of adjusted income above £260,000, until it reaches £10,000 for adjusted incomes of £360,000 and above.



Example: The AA will be £40,000 for someone with an adjusted income (including pension contributions) of £300,000.

Remember that if the value of your pension savings exceeds your AA you may have to pay tax on the excess based on your marginal rate of income tax.

Key AA considerations

Do you earn over £260,000 from Eaton, including all taxable benefits and the value of your annual pension savings?
Do you have any other income that would take you over £260,000?
Have you been contributing extra contributions to a pension scheme?

If you've answered yes to one or more of these questions, you may be impacted by the AA.

Lifetime Allowance

*Another allowance that may have affected you previously is the **Lifetime Allowance** (**LTA**) – the overall amount you could previously build up tax-efficiently in a pension.*

What is changing with the LTA?

The Government has announced the intention to remove the Lifetime Allowance for pensions from 6 April 2024, and confirmed there will be no Lifetime Allowance tax charge during the 2023/24 tax year.

Please note legislation to remove the Lifetime Allowance is not yet finalised. Although no LTA charge will apply during the 2023/24 tax year, the LTA of £1,073,100 remains in place until it is fully abolished. This means that anyone accessing pension savings during the 2023/24 tax year will still need to report their LTA position to their pension scheme administrator, even though there will be no additional tax charge to pay on savings above the LTA.

To determine the position of your pension savings against the LTA, you need to add up the value of all of your pension plans

- For DC plans this is quite straightforward – you simply need to look at the value of your investments in your DC funds.
- For DB plans, the 'value' of your pension for LTA purposes is the starting level of your annual pension when you take your benefits multiplied by 20, plus any tax-free cash lump sum plus any Additional Voluntary Contribution (AVC) accounts.

As a result of the changes to the Lifetime Allowance, the maximum amount which can be taken as a pension commencement lump sum (PCLS) will be capped at £268,275, being 25% of the current standard lifetime allowance of £1,073,100, or 25% of the account value if lower. Members with a protected right to a higher PCLS will continue to be able to access this right.

Next Steps

What do I need to consider?

You should consider whether you might be impacted by the Annual Allowance, and whether you need to take action to prevent any tax charges by reviewing your expected income and pensions savings for 2023/24.

- Recent payslips should be a useful indicator of your expected earnings from Eaton
- Details of your pension savings are available from your pension scheme administrator

A separate detailed guide is available from the ‘My Benefits’ section of JOE or on request from 80Twenty. 80Twenty are financial advisers familiar with Eaton’s AA and LTA policy.

If, after consulting the detailed guide, you think you might be affected by the AA, or you would like more information, please contact 80Twenty to discuss your options.

80Twenty contact details:
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Important Note: This summary is based on information released to date and may be subject to change. This information is not and should not be taken as financial advice. If you are unsure please seek impartial financial advice. 80Twenty may be able to provide you with advice or you can find a list of FCA approved advisers at www.unbiased.co.uk.