Annual allowances – a reminder

This note is a reminder of how the annual allowances, the maximum amount you can save into a pension scheme tax effectively, currently operate. You *may* be impacted by elements of the annual allowances, so please read through this note carefully as a reminder of how they work.

Introduction

There are three main elements to the annual allowances:

- The basic annual allowance
- The tapered annual allowance
- The money purchase annual allowance

The basic annual allowance

The basic annual allowance is currently £40,000. Contributions made to all pension schemes during each tax year count towards the annual allowance, and that includes the amount that both you and Barratt Developments contribute, including any additional voluntary contributions and bonus sacrifice.

You can carry forward any unused annual allowance if you have not exceeded the annual limit in any of the previous three tax years, so it may still be possible to contribute more than £40,000 in any one year without being subject to a tax charge.

The tapered annual allowance

There is now a tapered reduction in the annual limit for tax-free pension savings, which affects anyone with total earnings of over £150,000.

The definition of total earnings includes taxable income from all sources as well as the value of the pension contributions made by Barratt Developments on your behalf. The Annual Allowance for individuals in that category will be reduced by £1 for every £2 of earnings over £150,000, subject to a minimum allowance of £10,000 for those with earnings of £210,000 or more. To protect those with lower earnings, but large pension savings, the reduction will only apply to individual's whose total earnings *excluding* pension contributions is over £110,000.

The table below provides a summary of how the changes are applied.

Income	Annual allowance each tax year
Below £110,000	£40,000
£110,000 to £150,000	£40,000, but income needs to include the value of pension contributions
£150,000 to £210,000	A tapered scale reducing £40,000 by £1 for each £2 of income
Above £210,000	£10,000

The money purchase annual allowance

The money purchase annual allowance (MPAA) applies to individuals who have accessed any DC pension savings and are also contributing to a pension scheme.

The MPAA aims to stop an individual using the flexibilities around accessing a DC pension arrangement as means to avoid tax on their current earnings, by diverting their salary into their pension scheme, gaining tax relief, and then effectively withdrawing 25% tax-free. It also restricts the extent to which individuals can gain a second round of tax relief by withdrawing savings and reinvesting them into their pension. The MPAA is £4,000 and applies to any individuals who have flexibly accessed their DC pension savings.

Whilst it is not possible to access your savings from the Barratt Group Pension & Life Assurance Scheme (BGP&LAS) flexibly and then continue to make further contributions, the MPAA will still apply if you have, or are planning to, flexibly access DC pension savings you may have elsewhere. If you do, it may therefore limit the amount of tax effective contributions you can make into the BGP&LAS in future.

The Lifetime Allowance

The Lifetime Allowance (LTA) is the maximum amount of money that you can save into pensions over your lifetime without incurring a tax charge. The rate of tax you pay on pension savings that exceed the LTA depends on how the money is paid to you – the tax charge is 55% if you receive it as a cash lump sum or 25% plus your highest (marginal) tax rate, if you receive it any other way, e.g. pension payments or other withdrawals.

It is important to note that the LTA tax charge is assessed at the time you draw your pensions.

The LTA for the 2018/19 tax year was £1.03 million and for the 2019/20 tax year is £1.055 million.

Summary

Tax charges will apply if you exceed any of the annual allowances of the Lifetime Allowance and the Company has introduced some flexibility for individuals who feel they may be affected and want to try and manage the impact in any particular tax year. However, it is ultimately a personal taxation issue and therefore we recommend that you seek independent financial advice before making any changes to your pension arrangements.

A list of regulated advisers can be found at: www.unbiased.co.uk

Depending upon the arrangements you agree with your independent financial adviser you may have to pay for any advice they provide. Tax rates are subject to change and any decisions you make should be based on the most recent legislation.

May 2019