Appendix 1

Example:

Tapered Annual Allowance leading to Annual Allowance Charge and effect of Voluntary Scheme Pays notice being permitted

55 year old female member with 29 years 'final salary' related service pre 1 April 2014
Pensionable pay of £96,243.00
Standard Annual Allowance = £40,000.00
Tapered Annual Allowance provisions triggered due to taxable income from elsewhere

Tapered Annual Allowance that applies to member in 2016/2017 =	£25,000.00
Pension Input for 2016/2017 from LGPS membership =	£39,425.00
Available carry forward from previous years =	£1,425.00

Pension Input is within the Standard Annual Allowance, however Pension Input exceeds the member's personal Tapered Annual Allowance.

Tapered Annual Allowance	£25,000.00
Less Pension Input for 2016/2017	£39,425.00
Excess over Tapered Annual Allowance	**£14,425.00**
Available Carry Forward	£1,425.00
Excess subject to Annual Allowance Charge	**£13,000.00**

If the member's marginal rate of tax was at 45%, an Annual Allowance Charge of £5,850.00 would be incurred by the member (£13,000.00 x 45%)

Mandatory Scheme Pays is not an available option since the standard annual allowance has not been exceeded.
If, however, Voluntary Scheme Pays were available, the member could give notice that they wished the Pension Fund to pay the charge of £5,850.00 to HMRC on their behalf in return for an appropriate adjustment to their pension benefits.
The initial 'offset', or reduction to their annual pension, assuming it were taken at Normal Pension Age (age 67), would be £473.56 calculated as shown on the next page.

Annual Allowance Tax Charge for which Scheme Pays election made	£5,850.00	AATAX
Normal Pension Age (i.e. SPA)	67	
Age at Relevant Date	55	
Formula =	AATAX / (AAFAC x AAADJ)	
AAFAC	13.88	
AAADJ	0.89	
combined factor	12.3532	
Initial Annual Pension Offset =	**£473.56**	

The initial offset amount would be increased in accordance with relevant provisions of the LGPS Regulations 2013 during the period from 5 April 2017 to the member's date of retirement, and following their retirement it is their annual pension after the application of the offset that would be subject to cost of living increase under Pensions Increase provisions.

Should the member retire at a date other than that of their Normal Pension Age, the amount of the offset would be adjusted accordingly; if they retire earlier, the offset applied would be reduced, if they retire later, the offset applied would be increased. Normal Pension Age is set by their State Pension Age as at their date of retirement; this is currently this member's 67th birthday, but this subject to change.

Pensions payable to any survivors in the event of the member's death would not be affected by the pension offset.

A lump sum death grant payable should the member die in service would not be affected; one payable if they were to die either whilst their benefits were deferred or whilst a pension was in payment to them would, however, be affected since death grants in those circumstances are based on a multiple of their pension after deduction of the appropriate pension offset.