

PCSPS(NI)

Principal Civil Service Pension
Scheme (Northern Ireland)

Your pension and tax

How the tax rules may affect you



Department of
**Finance and
Personnel**

www.dfpni.gov.uk

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Civil Service Pensions

Occupational pension schemes and personal pension arrangements which benefit from tax relief are subject to tax rules. The rules limit the amount of tax relief given to pensions.

This booklet gives a brief overview of the main tax rules that apply to pensions and how you might be affected by them. Definitive information is laid down by HM Revenue and Customs. For a comprehensive guide to tax legislation, visit www.hmrc.gov.uk.

You should note that nothing in this booklet can override the rules; in the event of any difference, the rules will apply.



Your pension and tax

Tax relief and the Annual Allowance

Every year you may pay up to all of your salary as pension contributions and benefit from tax relief, subject to the Annual Allowance. The Annual Allowance is the limit on the amount by which you can increase the value of your pension in any tax year without paying higher income tax. The Government has set the Annual Allowance at a level which means that it is likely to affect only a small number of people. The Annual Allowance for tax year 2009/10 is £245,000, rising to £255,000 for 2010/11.

The Annual Allowance applies to all of the pension benefits you build up in any occupational, personal, stakeholder and additional voluntary contribution schemes you may have. You must add all the amounts together in order to decide whether you have exceeded the Annual Allowance for a tax year.

The Annual Allowance limit is measured in two ways, depending on the type of pension arrangement. For money purchase schemes, for example partnership, it will be the total amount of contributions for the year. For defined benefit schemes such as classic, classic plus, nuvos and premium, it is measured as the increase in pension benefits earned in the year.

If you exceed the limit, you are responsible for reporting the information to HMRC under the tax self-assessment process. We will be able to provide you with information to help you with this. You can ask us for an Annual Allowance statement. (See 'Finding out more', at the end of this booklet.)

Tax relief and non-earners

Even if you are not earning, you can contribute up to £3,600 a year into any pension and get tax relief on your contributions.

When you receive your pension

Your pension will be taxed in the same way as your salary, with income tax deducted at source by us. Civil Service Pensions pays your pension. You have to take your PCS(PSNI) pension before your 75th birthday.

You can carry on working - if this suits you and your employer - but you will not be able to build up any more pension. You will therefore receive both your pension and pay (and be taxed accordingly). Please note that we cannot pay you a tax-free lump sum once you are 75.

Lifetime Allowance

The Lifetime Allowance sets the maximum amount of pension benefits you can take without having to pay extra tax. The Lifetime Allowance is £1.75 million for tax year 2009/10, rising to £1.8 million for 2010/11. Any benefits over the Lifetime limit are taxed at 55%.

Like the Annual Allowance, the Lifetime Allowance applies to all your pension savings. The following pensions, however, do not count for Lifetime Allowance purposes:

- State pension (including State Second Pension)
- any pension you receive as a dependant of someone else (for instance, if you are getting a widow's, widower's or civil partner's pension).

See the HMRC website for more information on how to work out the value of your pensions against the Lifetime Allowance.

Any lump sum you take on retirement will normally be paid tax-free (if you are under 75) providing your total pensions are below the Lifetime Allowance.

The administration process

Even though the Lifetime Allowance will only apply to very few people, we must check your pension benefits against the Lifetime Allowance when there is a "benefit crystallisation event". This is usually when your pension payments start.

We will ask you to provide information on any pension(s) that you may already be receiving. You must also tell us whether you expect more than one pension to start on the same day as you wish to start getting your PCSPS(NI) pension and, if so, the order in which you want them to use up your Lifetime Allowance. The order is unlikely to make any difference unless your benefits in total will use up more Lifetime Allowance than you have available.

The Lifetime Allowance may be increased if you:

- became entitled to a pension credit following a divorce on or after 6 April 2006 and the pension credit was as a result of a pension sharing order applying to pension rights which came into payment on or after 6 April 2006
- became entitled to a pension credit before 6 April 2006
- are not resident in the UK and are not employed by someone in the UK while you are participating in the scheme
- arranged for pension rights to be transferred from an overseas' scheme after 6 April 2006 but before your benefits come into payment.

The Lifetime Allowance may be reduced if:

- you applied for an increased Lifetime Allowance and your pension is reduced (pension debit) on your divorce. HMRC will recalculate your personalised Lifetime Allowance to reflect the amount of pension you have lost
- you take your pension before normal minimum pension age, which is currently age 50 and rises to age 55 from 2010. The reduction does not apply if the pension is paid early by the scheme because you meet the ill health conditions for early payment of your pension.

Your responsibilities

Each time you become entitled to receive benefits from a scheme you will have to provide information to us so that we can check that you will not exceed the Lifetime Allowance. If you do not give us the information when we ask for it, we may delay paying your pension to you or we may deduct tax from any pension or lump sum which is payable even if you have not used up all your Lifetime Allowance.

If you were granted transitional protection from HMRC, you must send your certificate to us each time there is a benefit crystallisation event.

Other information

Pension for dependants

Pensions payable to dependants following the death of a member do not count towards the Lifetime Allowance of either the member or the dependant.

Lump sums for dependants

Where lump sums are payable on a scheme member's death, they will count against the member's Lifetime Allowance.

Allocating some pension to your partner and the impact on Lifetime Allowance

The amount of Lifetime Allowance you use up reflects the amount of your pension and lump sum that come into payment when you retire. If you allocate some pension in favour of someone else, your pension will be reduced, so you will use up less Lifetime Allowance.

The Lifetime Allowance and pending pay awards

If you have a pending pay award when you retire, we will give you a provisional statement showing how much Lifetime Allowance you have used up. We will then send you a revised statement when we receive details of the pay award and are able to revise your pension benefits. If we do not get the final information until more than 12 months after starting to pay your pension, the tax rules do not allow us to pay you arrears of lump sum. Instead, we will convert any extra lump sum into a further increase to your pension.

Where can I find out more?

HMRC website:
www.hmrc.gov.uk

“Pensions and tax” pages on the PCSPS(NI) website:
www.civilservicepensions-ni.gov.uk/index/current-members/pensions_and_tax.htm

For help in tracing ‘lost’ pensions

www.pensionservice.gov.uk

We will be able to give you information on how Lifetime Allowance works. (We hold your pension records and administer your pension on your employer's behalf, including working out and arranging pension payments). You can contact us using the methods below:-

Contacting Us

You can contact us at CSP by a number of different methods:-

By Post:

**Civil Service Pensions
Waterside House
75 Duke Street
DERRY/LONDONDERRY
BT47 6FP**

By Telephone: 028 7131 9000

By Fax: 028 7131 9234

By Email: cspensions.cpg@dfpni.gov.uk

Internet: www.civilservicepensions-ni.gov.uk

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