Pension Fund

More about...

Tax charges

To encourage you to save into a pension, the Government gives you some tax relief on the money you pay in. However, it has set limits on the amount of pension benefits you can build up before tax charges apply.

You are responsible for monitoring your own position against the limits and for submitting the relevant information at the appropriate time to HM Revenue & Customs if you exceed the allowances. We will supply information to help you complete your tax return.

The LTA

Since 2006, pension savings have been subject to an LTA. This placed a limit on the overall value of pension benefits you could build up across all your pensions before having to pay additional tax. For the 2022/23 tax year, the LTA was £1,073,100.

The LTA was abolished altogether from 6 April 2024.

From 6 April 2024, there is a limit on the total amount of lump sums and lump sum death benefits that you can receive free from Income Tax. These are the lump sum allowance and the lump sum and death benefit allowance.

Lump Sum Allowance (LSA)

From April 2024 a LSA has been introduced. **The LSA is 25% of the former LTA figure which comes to £268,275.** This is the maximum lump sum you can receive from all your pension savings without a tax charge. If you exceed the LSA, the amount over the LSA will generally be taxed as income. Members with existing LTA protection may have a higher limit before they are liable to pay the additional tax.

Lump Sum and Death Benefit Allowance (LSDBA)

From April 2024 a LSDBA has also been introduced. **The LSDBA is £1,073,100.** This limits the tax-free payments that can be made following someone's death. The limit also applies in circumstances where, due to ill health, someone's entire pension is converted to a single cash sum.

The AA

This is the allowance set by the Government for the value of your pension savings that can be built up tax free in any tax year. Pension savings in excess of the AA, or 100% of your earnings if lower, are subject to a tax charge. The State Pension is excluded.

- **The standard AA for the 2024/25 tax year is £60,000. This may reduce if you're affected by the Tapered Annual Allowance (TAA), which affects people who have a threshold income over £200,000 a year (see below).**
- **The AA applies across all your pension savings, not per pension scheme.**

For the 2024/25 tax year, the TAA affects anyone who has an income over £200,000 (after pension contributions but before tax) and an adjusted income including the Pension Input Amount of over £260,000 (before tax). The AA is then reduced by £1 for every £2 of adjusted income over £260,000. The minimum that the AA can be tapered down to is £10,000.

A Money Purchase Annual Allowance (MPAA) applies to members who have accessed any retirement savings 'flexibly' through flexible drawdown on the 'pensions freedoms'. The MPAA only applies to Additional Voluntary Contributions (AVCs) or contributions to Defined Contribution (DC) pension schemes, it does not apply to normal contributions made to the Abbott Laboratories Pension Fund (1966).

The MPAA for the 2024/25 tax year is £10,000.

How your pension savings are measured

Pension savings are measured over periods of one year, known as Pension Input Period (PIP). The PIP for the Fund, including any AVCs you pay, is the tax year.

The total of pension savings in all the PIPs ending in a particular tax year is known as the Pension Input Amount (PIA) and is counted against the AA for that tax year. HM Revenue & Customs allows unused AA from the previous three tax years to be carried forward.

The PIA is how pension savings are measured against the AA for Defined Benefit (DB) pension schemes like the Abbott Laboratories Pension Fund (1966). It's based on the capital value of the increase in your pension benefits over the tax year.

Your PIA for the Abbott Laboratories Pension Fund (1966) can be found on your annual benefit statement.

We will write to you with additional information if your Fund benefits increase by more than the standard AA in respect of any tax year.

You can find out more about tax charges at **www.gov.uk/tax-on-your-private-pension**

Comparing the PIA with the AA

There is a tax charge if the PIAs for any tax year total more than the AA for that tax year plus any unused AA carried forward from the previous three tax years. The excess of the PIAs above the AA is added to your income and taxed in the normal way. Scheme members may be able to meet any such charge by way of 'Scheme Pays'. This means that the Scheme meets the tax charge, with the prospective pension benefits being reduced accordingly.

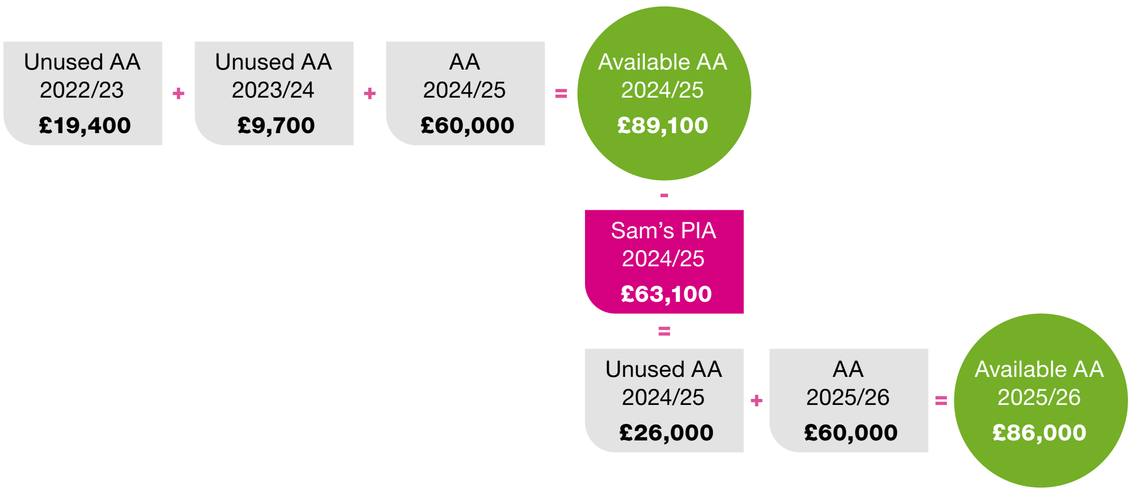
Carry-forward example

Sam's PIA for 2024/25 is £63,100. In this tax year, Sam didn't build up any pension rights from any other scheme.

Sam had unused AA of £19,400 from tax year 2022/23 and a further £9,700 from tax year 2023/24.
For 2024/25, Sam's AA is £60,000.

The carried forward amounts of £19,400 and £9,700 are added to the £60,000, giving a total of £89,100.

The £63,100 PIA is £26,000 less than this, so Sam has no AA tax charge for 2024/25 and carries forward £26,000 unused AA into 2025/26.



Tax charges and the Scheme Pays facility

If you have exceeded your AA you are required to pay tax on the excess at your marginal tax rate.

We recommend that you refer to the HM Revenue & Customs website for a full explanation and examples of the calculation of chargeable amounts under various circumstances, and take independent tax/financial advice.

Your marginal tax rate

Your income is taxed in bands with higher rates of tax applying to higher bands of earnings. When we refer to tax charges being ‘at your marginal tax rate’, we mean the highest rate of income tax that you pay – i.e. the rate that is applicable to the last pound of your taxable income.

Your marginal rate of tax will depend on your earnings and your personal allowance.

Details of income tax allowances and rates can be found at **www.gov.uk/government/publications/rates-and-allowances-income-tax**

Meeting an AA tax charge

If there is a tax charge payable for pension savings in excess of the AA, you may be able to use the Scheme Pays facility, if you wish. With this option, the tax is paid by the Fund and your benefits are reduced by an equivalent value. Further details of how Scheme Pays works are available in the Scheme Pays Guide which can be found on our website at **www.abbottpensionfund.co.uk**

Any questions?

If you have any questions about how the figures have been calculated on your benefit statement, or you need information to complete a tax return, please contact Polly Fontaine our Pensions Officer, on 01628 774 613 or email **ukpensions@abbott.com**

We cannot give financial or tax advice, so if you need help about your personal situation, we recommend that you seek independent financial advice. You can find an independent financial adviser at **www.moneyhelper.org.uk**

This factsheet is based on our understanding of current legislation and tax rates. They may change from time to time.