



Tapering of annual allowance

How we can help

We'd be pleased to meet you to discuss your personal situation and the range of services that we provide for the medical sector.

We can arrange daytime or evening meetings to suit your needs.

Your initial consultation is free, and at this meeting we'll provide you with a realistic estimate of our costs.

If you choose to become a client, we'll provide you with a single point of contact; someone who knows about your affairs and can help you with any day-to-day queries.

As members of the Association of Specialist Medical Accountants (AISMA) we're aware of current issues affecting the NHS, such as the NHS Pension Scheme.

We also have specialist personal tax and tax advisory teams, so you can be assured that you'll receive the most up-to-date and proactive advice.

NHS hospital staff

Tapering of the annual allowance has been around since 2016/17, however, some changes were introduced with effect from 1 April 2020 which have eased some of the tax charges seen.

What has changed?

The standard annual allowance is £40,000. For members of the NHS pension scheme, the allowance is compared with the amount of growth (over inflation) in the capital value of their NHS pension benefits each year on which they receive tax relief, providing they have sufficient earnings. That growth is known as their 'pension input'.

From April 2016, individuals were at risk of having their annual allowance reduced to a potential minimum of £10,000, if they met both of the following conditions:

- Taxable of income of over £110,000
- 'Adjusted income' of over £150,000

Some members of the pension scheme were seeing large increases in their tax bills as a result of the rules and so reduced their commitment to the NHS to try to mitigate these tax charges.

With effect from April 2020, the Government brought in some changes to encourage members back into NHS work.

From this date, the taxable income limit was increased to £200,000 and the adjusted income limit increased to £240,000. However, the minimum allowance is now £4,000.

Growth in excess of the annual allowance is subject to a tax charge at your marginal rate and should be included on your tax return.



How do we calculate 'income' for this change (April 2020 onwards)?

In order to test whether or not an individual is caught by the tapering rules, a calculation of their 'adjusted income' is required. The starting point is to determine if the individual has gross taxable income of £200,000 or more. If gross taxable income is less than £200,000, the individual retains their full £40,000 allowance.

Taxable income is after certain reliefs, such as qualifying loan interest paid during the year, some trading losses and relief for superannuation contributions. Gift Aid does not affect the calculation and any personal allowance is also ignored.

It's important to remember that taxable income includes all sources of taxable income, so this would also include any private practice income.

If gross taxable income is more than £200,000, we then have to add the value of all pension inputs made during the year. Any non-NHS pension contributions will also be included.

If the resulting 'adjusted income' is more than £240,000 then the annual allowance is gradually reduced by £1 for every £2 that exceeds £240,000, to a minimum of £4,000.

What do I need to do?

For many NHS scheme members with income over the threshold, you may continue to contribute to their scheme as normal but will suffer a tax charge each year. The charge can be paid via your tax return or by electing for 'scheme pays' so that the tax is paid by NHS Pensions, with a subsequent deduction from your pension benefits.

Some may decide to opt out of the scheme in the right circumstances, after taking relevant advice.



These rules are very complicated and we strongly recommend you speak to our specialist medical team in either Colchester or Norwich, as well as with your Independent Financial Advisor."

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