

# Tax Allowances

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Building up a pension is generally a very tax-efficient form of saving. Various tax reliefs are provided up-front (on contributions and on the roll-up of investment returns) and the payment of income tax is currently deferred until the point at which you finally take your benefits as pension income.

The law does not restrict the number of pension arrangements you can be a member of at any one time. For example, if you wish, you can contribute to a personal pension at the same time as building up benefits in the Fund. You may generally obtain tax relief on pension contributions (to all schemes) up to the greater of 100% of your earnings or £3,600 a year if you are a non-taxpayer.

However, Her Majesty's Revenue and Customs (HMRC) place two important restrictions on the reliefs provided:

- The Annual Allowance (AA); and
- Lifetime Allowance (LTA).

If your benefits exceed either of these allowances, they will be subject to a tax charge. It is your responsibility to inform HMRC that you have exceeded the allowance and to pay any charge arising.

## Annual Allowance

The AA is the maximum amount by which the value of your pension benefits from all sources (excluding State Pension) can increase in any one tax year without incurring a tax charge.

The AA is £40,000 for most people, although a lower limit of £4,000 (Money Purchase Annual Allowance - see opposite) may also apply in certain circumstances. The AA reduces for most people with 'Adjusted Income' above £150,000 a year who have a Tapered Annual Allowance instead. If you exceed the AA in a given tax year, you are required to declare the excess and pay the charge as part of your annual income tax return. If we are aware that you have exceeded or are going to exceed the AA in a specific tax year, we will send you an AA Pensions Savings Statement with details of your total 'Pension Input Amount' in the Fund once the tax year has ended.

## Money Purchase Annual Allowance (MPAA)

The amount of money you can pay to a defined contribution arrangement like DC Start or DC Core is restricted to £4,000 a year, including any employer contributions where payable, if you:

- Started to take benefits from a defined contribution pension arrangement on or after 6 April 2015; and
- Accessed your monies from that arrangement 'flexibly' under the 'Freedom and Choice' options that were introduced on 6 April 2015.

By 'flexibly', we mean if you:

- Took more than 25% of your retirement savings from that arrangement in the form of a cash lump sum; or
- Are withdrawing monies directly from your retirement savings within that arrangement to provide a regular income ('flexi-access drawdown').

The MPAA will not apply to you if you used some or all of your monies to buy an annuity to provide a regular income.

You should let Nestlé Pensions know immediately if you think you might be affected by the MPAA.

## Tapered Annual Allowance

You'll have a reduced ('Tapered') Annual Allowance if both:

- Your 'Threshold Income' - your income excluding any pension contributions (unless paid as a salary sacrifice by your employer) – is over £110,000 a year; and
- Your 'Adjusted Income' – your income added to any pension contributions you or your employer make – is over £150,000 a year.

If you are affected, your AA will be reduced by £1 for every £2 of Adjusted Income. Once Adjusted Income is over £210,000, the AA is reduced to £10,000. You can find out more about tax on private pension contributions at [www.gov.uk/tax-on-your-private-pension/annual-allowance](http://www.gov.uk/tax-on-your-private-pension/annual-allowance)

## Pension Input Period

This is the period over which the pension benefits you earn in the Fund are measured for the purposes of estimating whether you are likely to exceed or have exceeded your AA. The Pension Input Period for the Fund is aligned with the tax year and ends on 5 April every year.

## Additional Voluntary Contributions (AVCs) and the Annual Allowance

If you decide to make AVCs for the first time or to increase your existing AVC contributions, Nestlé Pensions will check your benefits against the AA. Please note that this check will only be based on the benefits you hold in the Fund. If you are currently contributing to another pension arrangement outside of the Fund, you should make Nestlé Pensions aware. If we find that your AVC request is likely to make you exceed your AA for the year, we will notify you and ask you to confirm if you would like to proceed.

## Carry Forward relief

If you exceed your AA in a given tax year, you may be able to use 'Carry Forward' to receive tax relief and offset or reduce the AA charge that would normally be payable. Carry Forward allows you to make use of any AA that you may not have used during the three previous tax years, providing you were a member of a registered pension scheme. To use Carry Forward, you must make the maximum allowance contribution in the tax year (£40,000 if you have a standard AA) and can then use any unused allowances from the three previous tax years, starting with the tax year three years ago. However, you can't receive tax relief on contributions in excess of your earnings in a tax year and you only receive higher rate tax relief to the extent that you have paid it.

You cannot carry forward any unused allowance if you are subject to the Money Purchase Annual Allowance of £4,000 a year.

## Lifetime Allowance

When you retire, the value of your Fund benefits plus any previous benefits you may have built up elsewhere (excluding State Pension) will be tested against the LTA at that time. If the total value of all your benefits exceeds the LTA at retirement, you will have to pay a tax charge, payable to HM Revenue & Customs. The LTA charge only becomes payable at the point when you put benefits into payment that exceed the LTA. The LTA for the year 2017/18 is £1 million.

## Contact details

For further information about the Nestlé UK Pension Fund:

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