Fire Brigades Union
Campaigning for Firefighters and Emergency Fire Control Staff

Proposed changes to Pensions Tax Relief
FBU briefing August 2010

Why should I read this?

It is extremely important that you are aware of the proposed changes to Pensions Tax Relief – Don't think that this is something that will just affect other people such as high earners etc.

In this briefing you will see some examples of how it could affect you.

Take a few minutes to read this briefing and then take a few minutes to write to or email your MP

- The Government has proposed changes to tax relief on pension contributions.
- These changes are likely to affect a wide number of FBU members and could have significant tax implications for members contributing towards pensions schemes. They could affect you if you get a pay rise, if you get promoted, if you have to retire on ill health or simply by accruing more pensionable service.
- The FBU aims to explain the proposal, how it could affect you and what you can do to stop it happening
- Those most likely to be affected include:
  (i) members with long service and/or significant promotional or high pay rises;
  (ii) high-earners and members with enhanced or primary protection;
  (iii) members retiring on ill health or redundancy grounds
- If the changes take place the onus is on individuals to complete their own self assessment tax return to assess the tax charge incurred by any significant increase to their pension.
- These proposals represent another attack on our members' pensions following on from the Budget announcement that future public sector pensions will be uprated in line with increases in the Consumer Price Index (CPI) and not the Retail Price Index (RPI). Members can be assured that this change to the indexing arrangements have been raised at the Firefighters' Pension Committee.
- FBU is, with the assistance of First Actuarial, submitting a response to the consultation on these proposals

It is important that the reader notes that this briefing looks at the new proposals for changes to tax relief on pension contributions set out in the consultation document issued in July by HM Treasury, "Restriction of pensions tax relief: a discussion document on the alternative approach", and to demonstrate the potential tax impact on individuals.

Assumptions

The Assumptions used to demonstrate the potential tax impact on individuals in this note assumes:

(1) Annual Allowance is set at £40,000 from April 2011;
(2) Factor for valuing defined benefit pensions is increased from 10 to 20;
(3) No revaluation of previously accrued benefits.

In putting together this briefing note the FBU has sought advice from First Actuarial LLP, an independent actuarial consultancy that advises a number of unions and public sector bodies.

Background

The April 2009 Budget saw the introduction from 6 April 2010 of a new additional rate of income tax of 50% applying to taxable income over £150,000. In order to prevent this resulting in an increase to the tax relief granted on pension contributions, the previous Government was introducing legislation to restrict pension's tax relief for high earners effective from 6 April 2011.

The new Government is considering an alternative approach of restricting tax relief involving the reform of existing allowances, principally of a significantly reduced Annual Allowance, which it believes will simplify the tax system.

So, what are these changes?

In this briefing we will:

- **Explain the changes in a FAQ format;**
- **Give some worked examples on how it would affect members;**
- **Summarise why it is important to you and what you can do about it.**

"Take me to the FAQ"

"Take me to the examples"

"I'm a busy person- Tell me what it means to me & Show me what I can do about it."

FAQ

Q - What are the Annual Allowance and Lifetime Allowance?

A - The Annual Allowance (AA) is the amount by which the value of an individual's tax-approved benefits can increase any year without incurring tax. Any pension savings made in excess of the AA are subject to tax – or more accurately do not get tax relief. For the 2010/2011 tax year, the current AA is £255,000. To compare the value of your benefits with the allowance, first take the pension you have built up over the year – that is, the difference between your total pension at the start of the year and your total pension at the end of the year – and multiply it by 10. If relevant, any lump sum built up over the year or contributions made into personal or stakeholder pension plans over the year should be added to this amount.

If this amount is over the AA for the tax year, a 40% tax charge ("the AA charge") is incurred on the excess over the allowance. The current AA should only affect a small number of people. For example, your pension amount would have to go up by £25,500 that year (£255,000 divided by 10) for you to reach the AA.

The Lifetime Allowance (LTA) is the amount by which the value of an individual's tax-approved benefits can build up over their total working life without incurring tax. This includes benefits from all sources except the state – so benefits due from all tax-approved schemes, or any personal pension plan or stakeholder plan should be added together. For the 2010/2011 tax year, the LTA is £1.8 million. To compare the value of your benefits with the LTA, first take the total tax-approved pension you have built up and multiply it by 20. If relevant, the 'value' of any other pensions should be added.

If this amount is over the LTA at retirement, the excess will effectively be subject to an overall tax rate of 55%. The current LTA should only affect a small number of people. For example, your annual pension for the 2010/2011 tax year would have to be £90,000 a year (£1.8 million divided by 20) for you to reach the LTA in The Firefighters' Pension Scheme 1992 (FPS) or the New Firefighters' Pension Scheme 2006 (NFPS).

Q – What were the previously proposed changes to tax relief on pension contributions?

A - Prior to the April 2009 Budget, all pension contributions benefitted from tax relief at the individual's marginal, that is their highest, rate of tax.

From April 2011, the approach proposed by the previous government was to restrict tax relief on pension contributions for those with an annual income of £150,000 or more, with the level of tax relief tapering away so that for those earning over £180,000, tax relief would be at 20%, i.e. the same as for a basic rate taxpayer.

Furthermore, new "anti-forestalling" regulations were introduced from 22 April 2009 by the previous government in order to avoid high earning individuals increasing their pension contributions before the new regulations take effect in April 2011.

If the Government decides that the alternative approach of reforming the AA will meet its objectives, then it will repeal the legislation passed in Finance Act 2010.

Q - What are the new proposed changes to the Annual Allowance?

A - The Government is committed to raising at least the same revenue through restricting pensions tax relief as under the approach proposed by the previous administration. To meet this objective, an AA in the region of £30,000 to £45,000 has been proposed.

A number of other changes to the design of the AA have been proposed, including:

- applying tax at an individual's marginal, that is their highest, rate of tax on contributions **above** the AA, rather than continuing with the current AA charge set at a flat rate of 40 per cent;
- capping pensions tax relief on contributions **below** the AA at 40 per cent, rather than granting tax relief at an individual's marginal rate of tax. This would reduce the amount of tax relief available to higher rate (50 per cent) taxpayers;
- removing the exemption in the year benefits come into payment;
- removing the exemption for individuals claiming enhanced protection;
- including revaluation of previously accrued benefits for active members in the calculation of the value of newly accrued annual pension;
- increasing the factor used to value newly accrued annual pension in a defined benefit arrangement from the current flat factor of 10 to a factor within the range 15-20.

Q - Is the LTA changing?

A - In addition to a reduced AA, the Government is considering reducing the LTA from the current level of £1.8m. The discussion document suggests moving to a level of £1.5m, which would affect those with the value of their pension benefits at or around that level.

FBU has made representation on behalf of its members in its response for the LTA to remain unchanged or as high as possible. Any reduction should be brought in gradually with protection for those members close to retirement or with benefits valued at or around any new limit.

Q - I have enhanced protection. Will I be exempt from the AA test?

A - Currently, members with enhanced protection are exempt from the AA test, but as part of the proposed changes the Government is proposing to remove this exemption.

FBU has made representation on behalf of its members in its response for enhanced protection to remain exempt from the AA test.

Q - Are any changes being proposed to members with enhanced protection or primary protection?

A - The Government is considering freezing pension benefits protected by enhanced or primary protection such that future benefit accrual would be subject to the LTA.

FBU has made representation in its response for enhanced and primary protection to apply going forwards.

Q – Will I have to fill in a Self Assessment Tax Return?

A - Under current rules, where the AA is exceeded, the individual is required to report this on their Self Assessment tax return. The individual is liable to a tax charge to recover any tax relief given on the excess payable through Self Assessment (by the following 31 January).

Some individuals not already within Self Assessment may find that they exceed a reduced AA and need to be brought into the Self Assessment regime for this purpose. Depending on the level of reduced AA, this could create a particularly onerous exercise for a significant number of individuals who had not previously been required to complete Self Assessment or make tax repayments under this regime.

FBU has made representation in its response for members to receive help in completing Self Assessment tax returns. It has also called for tax charges to be spread over a number of years to ease the burden on individuals, particularly where the AA is exceeded as a "one-off", e.g. due to a significant promotion.

Q - When will the Government finalise its decision?

A - The Government expects to confirm its intended approach by the end of September 2010, with draft legislation to follow "in the autumn". If implemented, the new restriction of pensions' tax relief rules will take effect from 6 April 2011 and be legislated for in the Finance Bill 2011.

Q – Who are First Actuarial LLP?

A - First Actuarial LLP is an independent actuarial consultancy who provides advice on pension scheme legislation matters to both private and public sector clients including a number of unions and public sector bodies. http://www.firstactuarial.co.uk/

Worked Examples

How likely am I to be affected?

Although it is high-earners who would most likely be affected, the impact of a reduced AA would not necessarily be restricted to employees on large salaries. If the proposed changes are made, the following members could incur an unexpected tax charge:

- members with long service and/or significant promotional or high pay rises
- high-earners and members with enhanced or primary protection
- members retiring on ill health or redundancy grounds

We provide examples below of members who may be affected by a significantly reduced AA. Examples have been shown for both Firefighters' pension schemes and the Local Government Pension Scheme (LGPS) – the impact will be similar for other schemes offering benefits similar to those shown.

The Firefighters' Pension Scheme (FPS) provides benefits on a 1/60ths basis for each of the first 20 years of pensionable service, and 2/60ths for each of the following years. i.e. For each of the first 20 years of pensionable service, you will get $1/60^{th}$ of average pensionable pay and for each of the following years you will get $2/60^{th}$ of average pensionable pay

The New Firefighters' Pension Scheme (NFPS) provides benefits on a 1/60ths basis for all pensionable service

The Local Government Pension Scheme (LGPS) provides benefits on a 1/80ths basis and cash at retirement of 3 times pension for service up to 1 April 2008. For service after 1 April 2008, benefits are provided on a 1/60ths basis (cash is available by commutation at retirement)

(i) members with long service and/or significant promotional or high pay rises

Example A – Area Manager Competent A grade moving to Competent B grade

FPS example

George is an Area Manager Competent A grade accruing benefits in the Firefighters' Pension Scheme 1992 (FPS). On 6 April 2011, George has completed 25 years' pensionable service. His pensionable salary for that year is £50,642. By 5 April 2012, George receives a pay rise and his pensionable salary increases from £50,642 to £53,934.

On 6 April 2011, George has completed 25 years' pensionable service. His pensionable salary for that year is £50,642. His pension entitlement from the FPS on that date is **£25,321pa** [(20 X 1/60 + 5 X 2/60) X £50,642 = £25,321pa].

By 5 April 2012, George receives a pay rise and his pensionable salary increases from £50,642 to £53,934. His pensionable service is now 32 years as each year of service over 20 years counts double. His pension entitlement at 5 April 2012 is **£28,765pa** [(20 X 1/60 + 6 X 2/60) X £53,934 = £28,765pa].

The increase in pension is £3,444pa [£28,765 – £25,321]. The 'value' of the increase is converted into a lump sum by multiplying the increase in accrued pension by 20. The value of the increase in George's accrued benefits from the FPS is therefore **£68,880** [£3,444 X 20].

After the end of the tax year, he is liable for tax at the rate of 40% on his "excess" contribution which is worked out as:

Value of increase in pension benefits	£68,880
Less Annual Allowance	-£40,000
Excess contribution	£28,880

George will therefore be liable for an AA charge of 40% of £28,880 = **£11,552** after the end of the tax year to April 2012.

NFPS example

If George had been a member of the New Firefighters' Pension Scheme (NFPS) his pension entitlement at 6 April 2011 from the NFPS would be **£21,101** [(25 X 1/60) X £50,642 = £21,101pa].

By 5 April 2012, George receives a pay rise and his pensionable salary increases from £50,642 to £53,934. His pensionable service is now 26 years. His pension entitlement at 5 April 2012 is **£23,371pa** [(26 X 1/60) X £53,934 = £23,371pa].

The increase in pension is £2,270pa [£23,371 – £21,101]. The 'value' of the increase is converted into a lump sum by multiplying the increase in accrued pension by 20. The value of the increase in George's accrued benefits from the NFPS is therefore **£45,400** [£2,270 X 20].

After the end of the tax year, he is liable for tax at the rate of 40% on his "excess" contribution which is worked out as:

Value of increase in pension benefits	£45,400
Less Annual Allowance	-£40,000
Excess contribution	£ 5,400

George will therefore be liable for an AA charge of 40% of £5,400 = **£2,160** after the end of the tax year to April 2012.

The above examples shows that although an employee promoted from Area Manager Competent A grade to Competent B grade could see an increase in gross salary of £3,292 this could be offset by an AA charge of £11,552 (or £2,160 if accruing benefits in the NFPS) payable from net earnings.

The following examples show that the proposed tax charge would not be limited to those employees at the top of the pay scale. However, employees who are members of the NFPS are less likely to incur tax charges than members of the FPS.

Example B – Group Manager (Competent B grade) moving to Area Manager

Greg is a Group Manager Competent B grade accruing benefits in the FPS.

On 6 April 2011, Greg has completed 25 years' pensionable service. His pensionable salary for that year is £46,428. His pension entitlement from the FPS on that date is **£23,214pa** [(20 X 1/60 + 5 X 2/60) X £46,428 = £23,214pa].

By 5 April 2012, Greg is promoted to Area Manager Development grade and his pensionable salary increases from £46,428 to £49,167. His pension entitlement at 5 April 2012 is **£26,222pa** [(20 X 1/60 + 6 X 2/60) X £49,167 = £26,222pa].

The increase in pension is £3,008pa [£26,222 – £23,214]. The value of the increase in Greg's accrued benefits from the FPS is therefore **£60,160** [£3,008 X 20].

Greg will therefore be liable for an AA charge of 40% of £20,160 = **£8,064**.

If Greg had been a member of the NFPS, no tax charge would be incurred in this example.

Example C – Watch Manager (Competent B grade) moving to Station Manager

Sue is a Watch Manager Competent B grade accruing benefits in the FPS.

On 6 April 2011, Sue has completed 25 years' pensionable service. Her pensionable salary for that year is £34,961. Sue also receives a London-weighting allowance of £4,959pa. Her pension entitlement from the FPS on that date is **£19,960pa** [(20 X 1/60 + 5 X 2/60) X (£34,961 + £4,959) = £19,960pa].

By 5 April 2012, Sue is promoted to Station Manager Development grade and her pensionable salary increases from £34,961 to £36,365. Sue also retains her London-weighting allowance of £4,959. Her pension entitlement at 5 April 2012 is **£22,039pa** [(20 X 1/60 + 6 X 2/60) X (£36,365 + £4,959) = £22,039pa].

The increase in pension is £2,079pa [£22,039 – £19,960]. The value of the increase in Sue's accrued benefits from the FPS is therefore **£41,580** [£2,079 X 20].

Sue will therefore be liable for an AA charge of 40% of £1,580 = **£632**.

If Sue had been a member of the NFPS, no tax charge would be incurred in this example.

FBU believes that these proposed changes will penalise those who wish to develop their careers by seeking promotion. This can be seen as a tax charge on high performance. *FBU has made representations to this effect in its response*.

(ii) high-earners
Some members will incur a tax charge under these proposals even with a nil pay rise.

The above examples included employees experiencing long service and/or significant promotional or high pay rises in the year. In the absence of an increase in pay, an AA charge is less likely to be incurred. However, high-earners with relatively short service and no pay rise in the year may still incur a tax charge.

Example D – high earner

FPS example

Qamar is accruing benefits in the FPS, with pensionable salary of £65,000.

On 6 April 2011, Qamar has completed 20 years' pensionable service. His pension entitlement from the FPS on that date is **£21,666pa** [(20 X 1/60) X £65,000 = £21,666pa].

By 5 April 2012, Qamar's pensionable salary remains at £65,000. His pension entitlement at 5 April 2012 is **£23,833pa** [(20 X 1/60 + 1 X 2/60) X £65,000 = £23,833pa].

The increase in pension is £2,167pa [£23,833 – £21,666]. The value of the increase in Qamar's accrued benefits from the FPS is therefore **£43,340** [£2,167 X 20].

Qamar will therefore be liable for an AA charge of 40% of £3,340 = **£1,336**.

NFPS example

If Qamar had been a member of the NFPS, no tax charge would be incurred in a year where no pay rise was received unless his pensionable salary exceeds £120,000.

(iii) members retiring on ill health or redundancy grounds

The FBU is opposed to reductions in establishments and has a clear policy on redundancies. We recognise however that some members may in certain circumstances opt for voluntary redundancy. We therefore feel it is important to illustrate that enhancement of pension benefits under ill-health early retirement or redundancy would not be exempt from the AA test under the Government's proposals.

The following examples demonstrate the potential impact of a reduced AA in the case of ill-health early retirement under lower tier (permanently disabled for the performance of his/her role) and upper tier (permanently disabled for any other regular employment).

Example E – ill-health pension, Group Manager Competent B grade, member of FPS

Greg is a Group Manager Competent B grade accruing benefits in the FPS. On 6 April 2011, Greg has completed 25 years' pensionable service and is 50 years old. His pension entitlement from the FPS on that date is **£23,214pa** [See Example B above].

Lower tier ill-heath pension

By 5 April 2012, Greg is now 51 years old and suffers an injury such that he is eligible to retire on a lower tier ill-health pension. Under FPS, Greg's lower tier ill-health pension is based on the number of years he could have completed by age 55 (i.e. 30 years) and the number of years he actually completed at the date of retirement (i.e. 26 years), and is calculated as follows:

Lower tier pension = 26/30 X [(20 X 1/60 + 10 X 2/60) X £46,428] = **£26,825pa**

The increase in pension is £3,611pa. The value of the increase in Greg's accrued benefits is therefore £72,220 [£3,611 X 20]. Greg will therefore be liable for an AA charge of 40% of £32,220 = **£12,888**.

Higher tier ill-heath pension

Let's now assume that Greg is eligible to retire on a higher tier ill-health pension. Under FPS, the level of pension awarded is dependant on the length of actual pensionable service completed. As Greg has over 13 years' pensionable service, he is awarded an additional 7 years pensionable service. Greg's higher tier ill-health pension is calculated as follows:

Higher tier pension (including lower tier pension) = [(20 X 1/60 + 6 X 2/60 + **7 X 1/60**) X £46,428 = **£30,178pa**

The increase in pension is £6,964pa [£30,178 - £23,214]. The value of the increase in Greg's accrued benefits from the FPS is therefore £139,280 [£6,964 X 20]. Greg will therefore be liable for an AA charge of 40% of £99,280= **£39,712**.

The tax position if Greg has been a member of the NFPS would have been as follows:

Example F – ill-health pension, Group Manager Competent B grade, member of NFPS

Greg is a Group Manager Competent B grade accruing benefits in the NFPS. On 6 April 2011, Greg has completed 25 years' pensionable service and is 50 years old. His pension entitlement from the FPS on that date is **£19,345pa** [(25 X 1/60) X £46,428 = £19,345pa].

Lower tier ill-heath pension

By 5 April 2012, Greg is now 51 years old and suffers an injury such that he is eligible to retire on a lower tier ill-health pension. Under NFPS, Greg's lower tier ill-health pension is based on the basic formula using his actual pension earned to date as follows:

Lower tier pension = [(26 X 1/60) X £46,428] = **£20,119pa**

The increase in pension is £774pa. The value of the increase in Greg's accrued benefits is therefore £15,480 [£774 X 20]. As this is less than £40,000 no tax charge is payable.

Higher tier ill-heath pension

Let's now assume that Greg is eligible to retire on a higher tier ill-health pension. Under NFPS, the higher tier pension is based on the basic formula plus an enhancement of service, i.e.
2% X [service accrued to last day of service] X [prospective service to age 60]. Greg's prospective service is 9 years. Therefore, his higher tier enhancement is 4.7 years [2% X 26 X 9].

Higher tier pension (including lower tier pension) = [(26 X 1/60 + **4.7 X 1/60**) X £46,428 = **£23,756pa**

The increase in pension is £4,411pa [£23,756 - £19,345]. The value of the increase in Greg's accrued benefits from the NFPS is therefore £88,220 [£4,411 X 20]. Greg will therefore be liable for an AA charge of 40% of £48,220= **£19,288**.

The following example demonstrates the potential tax charge that could be incurred for a firefighter control employee accruing benefits in the LGPS who is made redundant and receives an enhanced early retirement pension.

Example G – redundancy, Crew Manager (Control) Competent grade, member of LGPS

David is a Crew Manager (Control) Competent grade accruing benefits in the LGPS and is 60 years old. On 6 April 2011, David has completed 23 years' pensionable service (20 years accrued before 1 April 2008 and 3 years accrued after 1 April 2008). His pension entitlement from the LGPS on that date is **£8,910pa** [(20 X 1/80 + 3 X 1/60) X £29,700 = £8,910pa]. His cash entitlement is **£22,275** [3 X 20 X 1/80 X £29,700 = £22,275].

Enhanced redundancy pension

By 5 April 2012, his pensionable salary remains at £29,700 and his pension entitlement increases to £9,405pa [(20 X 1/80 + 4 X 1/60) X £29,700 = £9,405pa]. His cash entitlement remains at £22,275.

David, who is now 61 years old, is made redundant and is offered an enhanced early retirement pension such that he receives an additional 9 years of pensionable service.

His pension entitlement is therefore now **£13,860pa** [(20 X 1/80 + 4 X 1/60 + **9 X 1/60**) X £29,700 = £13,860pa]. His cash entitlement remains at **£22,275**.

The increase in pension is £4,950pa [£13,860 - £8,910] and the cash has not increased. The value of the increase in David's accrued benefits from the LGPS is therefore £99,000 [£4,950 X 20]. David will therefore be liable for an AA charge of 40%[1] of £59,000 = **£23,600**.

[1] In practice, some of the excess over the AA would be taxed at 20% for this individual.

The above example shows that the potential tax charge is greater than the enhanced annual early retirement pension received. It is also not unusual to find that when employees are made redundant, they put any redundancy payment into their pension scheme. To the extent that the increase in the value of the pension exceeds the AA, a tax charge could also be incurred.

FBU is totally opposed to the possibility that an individual could face a tax charge because they find themselves in the unfortunate and unavoidable position of being made redundant or retired on ill health grounds. This represents the worst possible example of "a double whammy".

FBU has made representations on this issue in it's response to the Government's consultation.

The following examples highlight how a member who transfers into London and receives the weighting allowance could incur this tax liability.

Example H – Crew Manager (Development grade) moving to London, no pay-rise

FPS example

Colin is a Crew Manager (Development grade) accruing benefits in the FPS.

On 6 April 2011, Colin has completed 20 years' pensionable service and his pensionable salary for that year is £29,971. His pension entitlement from the FPS on that date is **£9,990pa** [(20 X 1/60) X £29,971 = £9,990pa].

By 5 April 2012, Colin moves to London and receives a London-weighting allowance of £4,959 on top of his salary of £29,971. His pension entitlement at 5 April 2012 is **£12,808pa** [(20 X 1/60 + 1 X 2/60) X (£29,971 + £4,959) = £12,808pa].

The increase in pension is £2,818pa [£12,808 – £9,990]. The value of the increase in Colin's accrued benefits from the FPS is therefore **£56,360** [£2,818 X 20].

Colin will therefore be liable for an AA charge of 40%[1] of £16,360 = **£6,544**.

NFPS example

If Colin had been a member of the NFPS, his pension entitlement at 6 April 2011 from the NFPS would be **£9,990pa** [(20 X 1/60) X £29,971 = £9,990pa].

By 5 April 2012, Colin moves to London and receives a London-weighting allowance of £4,959 on top of his salary of £29,971. His pension entitlement at 5 April 2012 is **£12,226pa** [(21 X 1/60) X (£29,971 + £4,959) = £12,226pa].

The increase in pension is £2,236pa [£12,226 – £9,990]. The value of the increase in Colin's accrued benefits from the FPS is therefore **£44,720** [£2,236 X 20].

Colin will therefore be liable for an AA charge of 40%[1] of £4,720 = **£1,888**.

[1] *In practice, some of the excess over the AA would be taxed at 20% for this individual.*

Example I - Watch Manager (Development grade) moving to London, no pay-rise

FPS example

William is a Watch Manager (Development grade) accruing benefits in the FPS.

On 6 April 2011, William has completed 20 years' pensionable service and his pensionable salary for that year is £31,940. His pension entitlement from the FPS on that date is **£10,647pa** [(20 X 1/60) X £31,940 = £10,647pa].

By 5 April 2012, William moves to London and receives a London-weighting allowance of £4,959 on top of his salary of £31,940. His pension entitlement at 5 April 2012 is **£13,530pa** [(20 X 1/60 + 1 X 2/60) X (£31,940 + £4,959) = £13,530pa].

The increase in pension is £2,883pa [£13,530 – £10,647]. The value of the increase in William's accrued benefits from the FPS is therefore **£57,660** [£2,883 X 20].

William will therefore be liable for an AA charge of 40%[1] of £17,660 = **£7,064**.

NFPS example

If William had been a member of the NFPS, his pension entitlement at 6 April 2011 from the NFPS would be **£10,647pa** [(20 X 1/60) X £31,940 = £10,647pa].

By 5 April 2012, William moves to London and receives a London-weighting allowance of £4,959 on top of his salary of £31,940. His pension entitlement at 5 April 2012 is **£12,915pa** [(21 X 1/60) X (£31,940 + £4,959) = £12,915pa].

The increase in pension is £2,268pa [£12,915 – £10,647]. The value of the increase in William's accrued benefits from the FPS is therefore **£45,360** [£2,268 X 20].

William will therefore be liable for an AA charge of 40%[1] of £5,360 = **£2,144**.

[1] *In practice, some of the excess over the AA would be taxed at 20% for this individual.*

So, what does this mean to me?

What the examples have demonstrated is that

- you may get an increase in pay through pay rise or Promotion,
- you may have to retire on grounds of ill health,
- you may receive an additional pensionable allowance,
- you may just build up the value of your pension accruing more pensionable service– or of course a combination of these-

but if these Treasury proposals become a reality you may well be taxed.

What can you do about it?

As previously mentioned the FBU have submitted a response as part of the consultation process and will be raising issue in all forums, but with your help we could do more.

Don't sit back.

Get involved.

Assist your union and assist yourselves. Contact your MP and convince him/her to oppose what can only be described as a sneak tax

You may well ask - why should I bother – what difference will I make?

Quite simply put - for this proposal to become a reality it requires legislative changes, changes which you MP can influence. Your MP may well not understand this proposal and what it means to you. You can pass on the FBU response and use the briefing to convince them to oppose the proposal or better still get them to speak in opposition to it. The FBU will be providing more information as it becomes available you can pass this on to your MP and make sure they understand the issue.

Contact your MP

This change will require legislative changes you can write to your MP and explain the situation and encourage them to speak and vote against this

We suggest that individual letters are better than a pre-written one.
You might want to include these details;

- Who you are
- How long you've served
- Your rank/role
- That you are a constituent of the MP and name your town or village
- State you are writing in respect of the Restriction of Pensions tax relief
- State whether you feel that this is a stealth tax
- Give details of what it means to you
- Ask your MP to speak and vote against it
- If possible arrange to speak with them
- Pass on the information from the FBU submission/ briefing

Another alternative is to email your MP
This is a simple process and can be done by
Simply following this link **http://www.theyworkforyou.com/** to a page that will identify your MP.

Once you are on the page type in your postcode follow the instructions and type your message to your MP.