

Taxing times for higher earners – April 2022-2023

Higher earners should be prepared! The complexity of the Pension Standard Annual Allowance, especially when determining whether the Pension Tapered Annual Allowance applies, will mean it will be easier to incur an unexpected tax charge.

You should speak with your Financial/Tax Adviser immediately to assess your own situation.

Are you affected by the Pension Tapered Annual Allowance? If so, you may need to declare any tax due on your Self-Assessment Tax Return

Will you report more than £200,000 of taxable income on your tax return? Then this may affect you.

Please see Appendix 1 for a chart detailing how the annual allowance reduces by reference to earnings and for links to the Government website about how the Pension Standard Annual Allowance and Pension Tapered Annual Allowance are calculated.

It is important to note that the onus is on the individual to calculate their Tapered Annual Allowance (TAA), if applicable, and not the employer, scheme administrator or the scheme trustees. This is because it requires analysis of all taxable income (including personal income) and not just that in relation to employment relating to the scheme.

What do I need to do?

It depends on which category you fall into:

Category 1

I have NOT exceeded the Pension Standard Annual Allowance of £40,000 in relation to my Caterpillar pension savings and have NOT been affected by the Pension Tapered Annual Allowance

No action is required for the 2022/23 tax year in relation to your Caterpillar pension savings as no tax is due in relation to your Caterpillar pension savings. It is, however, suggested that you review your situation each year to ensure you do not accidentally trigger a tax charge.

Category 2

I have exceeded the Pension Standard Annual Allowance of £40,000 in relation to my Caterpillar pension savings, have a tax charge of at least £2,000, but am NOT affected by the Pension Tapered Annual Allowance

If your Caterpillar pension savings in 2022/23 exceeded the Pension Standard Annual Allowance of £40,000 you will receive a Pension Savings Statement from the Pension Administrator automatically by 6 October each year. This statement will include details of the pension input amounts for the 2022/23 tax year and the previous three tax years.

Each year you have the following options:

- You can pay the tax due via your Self-Assessment Tax Return or;
- You can pay the Annual Allowance tax due on the portion of pension savings in excess of £40,000 using Mandatory Scheme Pays through a reduction in your pension benefit, providing the tax bill is £2,000+.
- Mixture of option 1 and 2 above.

Category 3

I have not exceeded the Pension Standard Annual Allowance of £40,000 in relation to my Caterpillar pension savings, but I am affected by and have exceeded the Pension Tapered Annual Allowance due to my earnings

- You can pay the tax due via your Self-Assessment Tax Return.

Category 4

I have exceeded the Pension Standard Annual Allowance of £40,000 in relation to my Caterpillar pension savings, have a tax charge of at least £2,000 and am also affected by and have exceeded the Pension Tapered Annual Allowance

You are eligible for Mandatory Scheme Pays on a portion of your tax charge only, i.e. you would not be eligible for Scheme Pays on the portion of your tax charge which relates to the tax charge due on pension savings between your Pension Tapered Annual Allowance and the Pension Standard Annual Allowance. It is this amount that must be paid via your Self-Assessment Tax Return.

Example:

A member whose Pension Tapered Annual Allowance for 2022/23 is £10,000, whose pension savings in the Scheme are valued at £60,000 and has no unused allowance from previous years to carry forward, would have to pay a tax charge in respect of the excess above their £10,000 Pension Tapered Annual Allowance.

Assuming a marginal income tax rate of 45%, this would be a total tax charge of $45\% \times (£60,000 - £10,000) =$ **£22,500**

However, only the element in respect of excess above the pension standard allowance of £40,000 would be available via Mandatory Scheme Pays.

$45\% \times (£60,000 - £40,000) =$ **£9,000**

The member would have to pay the balancing amount of **£13,500** via their Self-Assessment Tax Return.

It is important to note that we only issue Pensions Savings Statements to individuals who exceed the Pension Standard Annual Allowance of £40,000 (after any carry forward has been exhausted) and not individuals who are affected by the Pension Tapered Annual Allowance. This is because we have no way of knowing what other taxable income you may earn outside of Caterpillar and how this might affect your Pension Standard Annual Allowance.

If you are affected by the Pension Tapered Annual Allowance you may request a statement from your usual pension administrator.

General Notes:

Even if you have exceeded your Pension Tapered Annual Allowance or your Pension Standard Annual Allowance for 2022/23, it doesn't automatically mean that a tax charge will apply. This is because it is possible to offset a charge by carrying forward any unused allowances from the previous three tax years. If there is insufficient unused allowance available, then a tax charge will be levied at the marginal rate of income tax on the amount of savings which exceed the Allowance which applies to you (having offset this by any unused allowance).

Your tax will have to be reported to HMRC on your Self-Assessment Tax Return by 31 January 2023

Money Purchase Annual Allowance – if you have accessed your money flexibly; for example, using Flexible Drawdown your Annual Allowance could be reduced to £4,000. For further detail click on this link.

<https://www.moneyhelper.org.uk/en/pensions-and-retirement/tax-and-pensions/money-purchase-annual-allowance-mpaa>

If you want to learn more about the allowances and pensions in general, please click here to access MoneyHelper. MoneyHelper provides independent and impartial information and guidance about pensions, free of charge, to members of the public. You can contact them on any of the details below:

<https://www.moneyhelper.org.uk/en/pensions-and-retirement/tax-and-pensions/the-annual-allowance?source=tpas>

Contact MoneyHelper:
Webchat or Webform

<https://www.moneyhelper.org.uk/en/contact-us/pensions-guidance>

Phone: 0800 011 3797

Lines are open 9am to 5pm Monday to Friday.

Local call charges apply

This communication does not constitute financial advice. It represents our understanding of the relevant legislation. Before making any decisions, taking any action, we recommend you take Independent Financial/Tax advice.

This communication confers no rights to benefits. Benefits conferred under any Caterpillar pension arrangement arise only under the formal governing documentation of that arrangement as from time to time in force.

Statements made in this communication in relation to legislative or tax issues are based on the Company's understanding of those issues at the date of this communications. These statements are made in good faith but are not warranted. The statements are subject both to changes in legislation and in HM Revenue & Customs practice. Benefits will be subject to tax in accordance with the actual law and practice which applies at the time when benefits are paid.

Neither Caterpillar nor the Trustees of the Caterpillar pension arrangements have separately verified the contents of any external websites and, accordingly, accept no liability for any error, omission or misstatement that may be contained in such websites.

Appendix 1 – Pension Tapered Annual Allowance

What is the Tapered Annual Allowance?

Please read the information on this link to find out more.

<https://www.moneyhelper.org.uk/en/pensions-and-retirement/tax-and-pensions/tapered-annual-allowance#an-example-of-how-the-tapered-annual-allowance-works-in-practice>

Tapered Annual Allowance adjustment:

(Adjusted Income **minus** the set threshold of £240,000) **divided** by 2*

Per example above, assume Adjusted Income £242,000

Adjusted Income	£242,000
Set Threshold	£240,000

	£2,000 / 2* = £1,000
Annual Allowance	£40,000
Less	£1,000

Tapered AA	£39,000

Check if you have an annual allowance tax charge on your pension savings:

<https://www.tax.service.gov.uk/paac>

For each £2 of Adjusted Income in excess of £240k members will lose £1 Standard Annual Allowance, floored at £4k

Adjusted Income	Amount in excess of £240k	Annual Allowance	Adjusted income minus threshold of £240k/2	Reduced Annual Allowance
240,000	-	40,000		
245,000	5,000		2,500	37,500
250,000	10,000		5,000	35,000
255,000	15,000		7,500	32,500
260,000	20,000		10,000	30,000
265,000	25,000		12,500	27,500
270,000	30,000		15,000	25,000
275,000	35,000		17,500	22,500
280,000	40,000		20,000	20,000
285,000	45,000		22,500	17,500
290,000	50,000		25,000	15,000
295,000	55,000		27,500	12,500
300,000	60,000		30,000	10,000
305,000	65,000		32,500	7,500
310,000	70,000		35,000	5,000
312,000	72,000		36,000	4,000