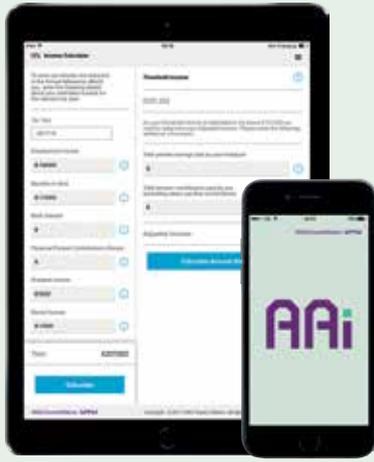


# AA IncomeCalc

Helping individuals to navigate the annual allowance  
(from the 2020/21 tax year)





Willis Towers Watson's AA IncomeCalc app provides your employees and scheme members with an easy-to-use tool to assess whether the annual allowance (AA) will impact their plans for making tax-efficient pension contributions.

The AA IncomeCalc app will let your members and employees estimate:

- **Threshold income** – if threshold income is more than £200,000, then adjusted income needs to be assessed
- **Adjusted income** – the level of the AA will reduce if adjusted income is more than £240,000
- **AA** – reduces to £4,000 for adjusted incomes of £312,000 or more

The AA IncomeCalc app lets your employees and scheme members test different scenarios to explore their optimum contribution rates whilst maximising tax relief. The app is ideal for complementing wider communication programmes you put in place to support employees through this complex area.

### What is the AA?

The AA is the maximum benefit value an individual can accrue in his or her pension arrangements in one tax year without incurring a tax charge.

### What changed from April 2020?

If adjusted income is more than £240,000 from the 2020/21 tax year onward, an individual's AA is reduced down from the standard £40,000.

### Who is unaffected?

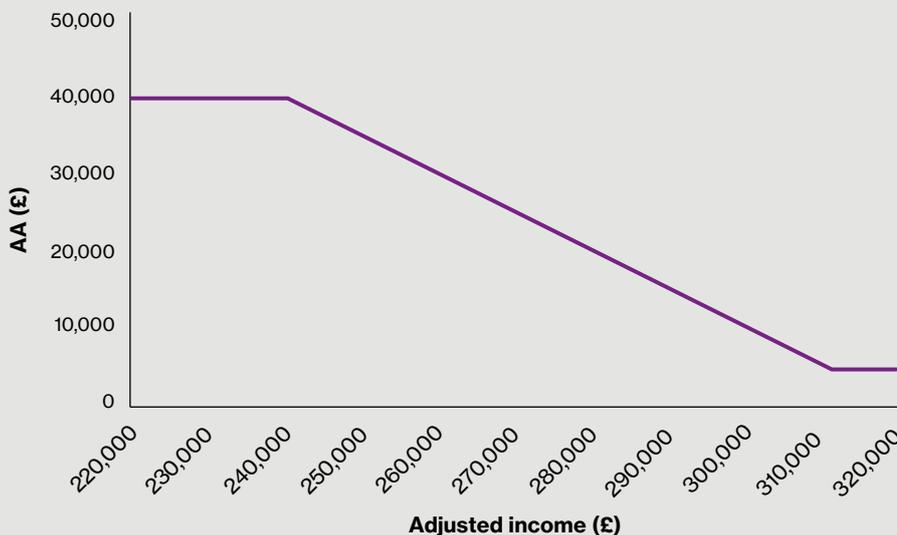
If threshold income is £200,000 or less, the tapering rules do not apply. Even if adjusted income is over £240,000, the AA remains at £40,000.

### How is the AA tapered if an individual has an adjusted income of more than £240,000?

The £40,000 AA is reduced by 50 pence for each £1 of adjusted income above £240,000, until it reaches £4,000 for adjusted incomes of £312,000 and above.



Figure 1. The AA is £30,000 for an adjusted income of £260,000. A £1,000 pay increase would reduce the AA to £29,500 and could trigger a 45% charge on any DC contributions or pension accrual over the reduced AA



**Note:** The lifetime allowance reduced to £1 million in April 2016, and increases in line with inflation each year.

The AA IncomeCalc app can help your employees answer some burning questions and supplement the communication programme you put in place.

### What does adjusted income include?

Adjusted income includes all UK taxable income before any deduction for personal contributions to a pension, plus any employer pension contributions (including any pension contributions paid by salary sacrifice and any pension input amounts for a defined benefit scheme).

### What does threshold income include?

Threshold income includes all taxable income (excluding pension contributions), *but* any pension contributions paid as a result of any new salary sacrifice after 8 July 2015 are included.

### What does taxable income include?

Taxable income includes all sources of income such as salary, bonus, benefits-in-kind, commission, rental income, dividends, and interest on savings, less certain reliefs such as charitable donations. Please note that this list is not exhaustive.

### What do employees need to consider?

Employees/Members should consider whether to take action to prevent any tax charges.

Employees should review their expected income and pension contributions for the tax year. Employees may be able to use unused AA from the previous three tax years to offset any excess pension contributions.

### What happens if the AA is exceeded?

Employees will have to declare the excess on their Self-Assessment tax return and pay income tax on the excess at their marginal rate.

The Willis Towers Watson AA IncomeCalc app should be supplemented by wider employer-sponsored support and communication initiatives. The issues are complex, and individual employees should not take any action without first reviewing the options offered by their employer and, if necessary, taking specific financial advice.

### What do employees need to think about for this tax year?

Use Willis Towers Watson's AA IncomeCalc app



Check whether AA tapering will apply

- Check whether threshold income will be above £200,000
- Estimate adjusted income
- Calculate anticipated AA for the tax year

Consider the tax charge on pension savings in excess of the AA

- Exceeding the AA leads to a tax charge. The tax is levied at marginal rates, which may be as high as 40% or 45%.
- Check whether any unused AA from the previous three tax years is available.
- Consider adjusting the amount and timing of pension savings to minimise the risk of incurring a tax charge.

### Further information

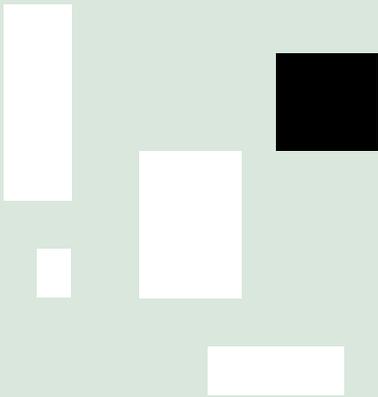
For help with the impact of the changes on your employees, contact your Willis Towers Watson consultant, or:

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Visit the App Store to download the app for iPad and iPhone, and get it on Google Play for Android™ smartphones and tablets.



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