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Tapered Annual Allowance (TAA) Help Sheet

Note: The following guidance is to support TAA calculations using our TAA calculator tool and therefore explains what information needs to be obtained to complete each of the input fields.

Total Income

This field is required for Threshold Income and Adjusted Income calculations.

Total income is income subject to income tax and includes the following:

Salary, bonus, pension income (including state pension), taxable element of redundancy payments, taxable social security payments, trading profits, income from property, dividend income, onshore and offshore bond gains, taxable payment from a Purchased Life Annuity, interest from savings accounts held with banks, building societies, NS&I and Credit Unions, interest distributions from authorised unit trusts and open-ended investment companies, profit on government or company bonds which are issued at a discount or repayable at a premium and income from certain alternative finance arrangements.

A few points to note based on common questions:

Salary

It is the gross amount subject to tax (the personal allowance cannot be deducted). If the client pays pension contributions via Net Pay or Salary Sacrifice the amount subject to tax is the amount net of the pension contribution (for Net Pay contributions) or the gross salary after deducting the amount sacrificed.

For example, if the client's gross salary is £120,000 but they pay a pension contributions of 5% via Net Pay or Salary Sacrifice the salary subject to tax will be £114,000.

If you are unsure about your client's expected salary, bonus, salary sacrifice arrangements or occupational pension input amounts please seek clarification from the client's employer.

If the client is self-employed it will be necessary to discuss the expected level of profit for the 2017/2018 tax year with the client and their accountant.

If the client is a director of a company then it will be necessary to discuss the expected level of salary, dividends and existing company pension contributions with the client and their accountant.

Please do not send us client payslips, P45s or company accounts. We are unable to verify the position. The figures will need to be confirmed by the clients employer or accountant.

Redundancy Payments

If the client receives a redundancy payment the first £30,000 is tax free. For example, if the client receives a redundancy payment of £120,000 the amount subject to tax is £90,000.

Onshore and offshore bond gains

It is the full bond gain that is included (not the top-sliced gain).

Dividend income

It is the gross dividend amount received (not just the amount above the £5,000 dividend allowance).

Savings Income

This is the gross amount above the personal savings allowance which is £500 for higher rate taxpayers but zero if Adjusted Net Income (ANI) is above £150,000 (ANI is not the same as Adjusted Income). The term Adjusted Income relates to the tapered annual allowance only.

Allowable Reliefs

This field is required for Threshold and Adjusted Income calculations.

These are the allowable reliefs under the income tax act of 2007. This includes such things as early trade losses relief, share loss relief and terminal trade loss relief. There are many other reliefs within this part of the legislation and it is likely those eligible for these reliefs will have had them brought to their attention by their accountant. Therefore if you are unsure about whether any of these reliefs should be included please discuss this with the client and their accountant.

What is not included here:

- Gift Aid.
- Personal allowance.
- The first £30,000 of a redundancy payment.
- Top-slicing relief in relation to life assurance investment bond gains.

Net Pay contributions

This field is required for Adjusted Income calculations only.

This includes personal contributions paid via Net Pay to occupational pension schemes (including defined benefit schemes). It also includes contributions to Retirement Annuity contracts ("s226"), contributions gaining UK tax relief but made to overseas pension schemes, using excess relief under net pay provisions and using relief on making a claim provisions.

For example, if the client Vera contributes £400 per month via Net Pay this contribution is deducted from their salary before tax is calculated. If the client pays 12 monthly Net Pay contributions of £400 then you would add £4,800 into this field.

This is a different method to Relief at Source contributions which is explained in the following section.

Relief at Source contributions

This field is required for Threshold Income calculations only.

This is the expected total gross contributions paid by the client (or a third party contribution on their behalf) to a personal pension scheme operating Relief at Source (RAS). A RAS contribution is where the client's contribution is paid net of basic rate tax relief to the scheme and the scheme claims basic rate relief from HMRC, which is then paid directly into the pension.

For example, if the client pays a personal contribution to a scheme which operates the RAS method the client would send the pension provider a cheque for £8,000. The scheme would claim £2,000 basic rate relief from HMRC and pay it into the pension. The amount you would include in the TAA tool for this RAS contribution would be £10,000.

Employer Pension Contributions to Money Purchase

This field is required for Adjusted Income calculations only.

This is simply the total contribution paid by the employer.

Total DB Pension Input Amount for the year

This field is required for Adjusted Income calculations only.

This is the Pension Input Amount that you have estimated for the year (see guidance notes for estimating Pension Input Amounts in the AA tool guidance notes). It is not the amount of contributions by the employee or employer.

Total gross employee contribution to DB scheme(s) included above

This field is required for Adjusted Income calculations only.

This is the level of contribution paid into the DB scheme by the employee only. This need to be included here to avoid double counting if the client is paying their contribution via Net Pay as you will have already accounted for the contribution by the client in the Net Pay input field.

For example, if the client pays 5% of their £60,000 salary via Net Pay into their DB scheme and you estimate the Pension Input Amount to be £23,000, you will have used the figure of £57,000 to represent salary in the Total Income input field, £3,000 would be included in the Net Pay field, the DB input field figure would be £23,000 and you would input £3,000 into this field.

Employment Income given up post 9/7/2015

This field is required for Threshold Income calculations only.

This is any salary sacrifice for pension contributions set up on or after 9 July 2015. Pre-existing arrangements are not included here. Salary sacrifice arrangements are a contractual agreement between the employee and their employer. If the client has an agreement in place prior to 9 July 2015 you should check whether this agreement also relates to any annual bonus payments. Even though a client may have been sacrificing some or all of their annual bonus each year it may not be part of the pre-existing arrangement. If it's not part of the arrangement it would need to be added here.

Example

Neil's gross reference salary is £115,000 and agreed to sacrifice 6% of his salary each year when he started with the company prior to 9 July 2015. This arrangement does not relate to bonus payments.

If Neil was to receive a bonus payment of £3,000 but sacrifices it for a pension contribution you would still use the figure of £108,100 in the Total Income field on the TAA tool is respect of salary from the employer but you would need to enter £3,000 into this field on the TAA tool. The resulting impact is that Threshold Income would equate to £111,100. As Threshold Income is above £110,000 you will need to carry out the Adjusted Income calculation.

Clarification should be sought from the employer if the client is unsure about the salary sacrifice arrangement.

Taxable Lump Sum Death Benefits (Gross Value)

This field is required for Threshold and Adjusted Income calculations.

This is mainly if you receive a lump sum from a deceased pension member's fund when they were over 75 (although this can be under 75 in some circumstances such as payment of death benefit from uncrystallised funds more than two years after the scheme were aware of the members death).

Example

Stella has earned income of £60,000. Her father died over age 75 with a pension pot of £80,000 and Stella was the sole beneficiary. The £80,000 was paid to her as a taxable lump sum. Therefore when completing the Total Income input field of the TAA tool you would input £140,000 (£60,000 + £80,000) as taxable income but you would also input £80,000 into this input field.

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