Alliance Healthcare & Boots
Retirement Savings Plan (AHBRSP)

How tax may affect your pension savings plans

Will your total pension contributions be **more than £40,000 (in the 2020/21 tax year)?**

Do you earn **more than £200,000 p.a.?**

Is the value of your pension savings expected to be **more than £1,073,100 when you retire?**

If your answer to any of the above is **yes** based on **now**, or **maybe** in the **future,** you should **keep reading**

Introduction

The UK Government currently allows tax relief on your pension savings but limits the amount of relief available in two ways – through the Annual Allowance (AA) and the Lifetime Allowance (LTA).

Over the years, the maximum amount of pension savings that can be made without incurring tax charges has been reducing. Whilst you may not be close to drawing from your pension savings, these limits may have tax consequences not just when you draw the benefits but as you pay in as well.

The information in this document applies to the 2020/21 tax year.

Annual Allowance

The AA is a limit on the total amount that you can contribute into registered pension schemes over a tax year and still receive tax relief. The standard AA is currently £40,000 gross, and including yours and Walgreens Boots Alliance (the Company's) contributions. However, if your total earnings in a tax year (including earnings outside the Company) are more than £200,000, or you have already drawn any pension savings, your AA may be reduced.

Lifetime Allowance

The LTA is the total value of pension savings that you can build up throughout your life in **all** registered pension schemes (excluding State benefits) without incurring a tax charge. There are a number of different times where the value of your pension savings is checked against the LTA, One of which is each time benefits are drawn or put into payment.

The LTA is currently £1,073,100 and is expected to increase in line with the Consumer Price Index (CPI).

Will my Annual Allowance be reduced?

For every tax year, you need to look at two definitions of income to see whether your AA might be reduced.

The checklist on the next page helps explain what is included in these different definitions of income. There are also examples in the Appendix.

How tax may affect your pension savings plans

Total taxable income
in the tax year (P60 earnings)

- Salary (before any SMART deductions*)
- P11D benefits
- Other income†
  - Pensions being paid to you
  - Dividends
  - Investment income
  - Interest on savings
  - Death Benefits

*SMART deductions (also known as Salary Exchange) are a way of making contributions into the Plan.
†This list is not exhaustive

I Joined before 8 July 2015

Deduct your contributions (whether through SMART or not)

I Joined on/after 8 July 2015

Deduct your contributions you make **not** through SMART

Deduct any taxed lump sum death benefits received

Threshold income

Add any pension contributions made by the company**

Deduct any taxed lump sum death benefits received

Adjusted income

*** if you are accruing DB benefits this will be the Pension Input Amount less any contribution you have to make to the DB scheme*

Your AA will not be reduced if you have a ‘threshold income’ less than £200,000 p.a.

Your AA will reduce

if your Threshold Income is more than £200,000 p.a and you have an Adjusted Income over £240,000 p.a.

The reduction will be £1 for every £2 of Adjusted Income over £240,000 p.a as per the table below.

How tax may affect your pension savings plans

Adjusted Income and the tapered Annual Allowance

Adjusted Income	Annual Allowance for tax years 2016/17 to 2019/20	Annual Allowance for tax years 2020/21 onwards	Differences in Annual Allowance
£150,000	£40,000	£40,000	+£0
£160,000	£35,000	£40,000	+£5,000
£170,000	£30,000	£40,000	+£10,000
£180,000	£25,000	£40,000	+£15,000
£190,000	£20,000	£40,000	+£20,000
£200,000	£15,000	£40,000	+£25,000
£210,000	£10,000	£40,000	+£30,000
£220,000	£10,000	£40,000	+£30,000
£230,000	£10,000	£40,000	+£30,000
£240,000	£10,000	£40,000	+£30,000
£250,000	£10,000	£35,000	+£25,000
£260,000	£10,000	£30,000	+£20,000
£270,000	£10,000	£25,000	+£15,000
£280,000	£10,000	£20,000	+£10,000
£290,000	£10,000	£15,000	+£5,000
£300,000	£10,000	£10,000	+£0
£310,000	£10,000	£5,000	-£5,000
£312,000	£10,000	£4,000	-£6,000

You can find out more information about making contributions through SMART on the AHBRSP website.

What is Carry Forward?

Carry Forward lets you use any unused AA from the previous three tax years.

This is based on your Annual Allowance for the 2017/18, 2018/19 and 2019/20 tax years.

To be able to use any Carry Forward in 2020/21, **your AA for this tax year has to be used first**. You need to start with any Carry Forward from three tax years ago and work forward, leaving the option to further carry forward any unused allowance to later years.

How tax may affect your pension savings plans

Please note the use of carry forward is complex and you should consider obtaining financial advice in relation to this matter.
The table below shows the Annual Allowance for the tax years provided above:

	Tax years 2017/18to 2019/20	2020/21 tax year onwards
Standard Annual Allowance	£40,000	£40,000
Minimum tapered Annual Allowance	£10,000	£4,000
'Threshold Income limit'	£110,000	£200,000
'Adjusted Income limit'	£150,000	£240,000
Adjusted Income *'upper bound' where minimum Annual Allowance applies*	£210,000 or more	£312,000

What if I go over the Annual Allowance?

If you go over both the Annual Allowance and any Carry Forward, a tax charge will apply to the excess at your marginal (highest) rate of income tax.

It is an individual's own responsibility to check if they are going to go over the Annual Allowance for the tax year. You can check if you're likely to be over the Annual Allowance by using the following calculator from HMRC.

If an AA tax charge is due, you'll need to account to HMRC for this via a self-assessment tax return.

How do I check against the Lifetime Allowance?

For a simple check of your total pension savings against the LTA:

Fund value of all DC* (inc AVC) pots** + **20x DB *** pensions** + **Lump sums from all DB schemes** = **Value of all benefits**

You then need to compare the total value of all your benefits against the LTA.

*DC means 'Defined Contribution' schemes, like AHBRSP.

** AVC means Additional Voluntary Contribution

***DB means 'Defined Benefit' schemes, like the legacy Boots Pension Scheme.

How tax may affect your pension savings plans

Lifetime Allowance considerations

It is worth noting that even if your benefits now are not immediately affected by the LTA you may still want to take action as any savings in a DC scheme (such as the AHBRSP) will continue to attract investment returns until you retire. Depending on the scheme’s rules, any benefits from a DB scheme are likely to increase up to your retirement.

It is important that you have up-to-date information and you may need to contact the administrator(s) of your previous scheme(s) to obtain updated valuations of your benefits.

When considering the LTA we have only looked at the standard LTA. You may have previously applied for a protected LTA; your financial adviser will be able to give you further information on this if appropriate.

What if I go over the Lifetime Allowance?

Each time benefits are drawn or put into payment you will receive a statement showing the percentage of the LTA which has been used.

Once 100% of your LTA has been used any further savings taken will be subject to the LTA tax charges described below. The LTA tax charge can be paid by the scheme with a reduction to your benefits.

There are two options for how to take benefits above the LTA:

1. **A Cash Lump Sum** - Benefits in excess of the LTA can be used to provide a cash lump sum, taxed at 55%.
2. **An income** - Alternatively, benefits in excess of the LTA can be used to provide an income. In this case the funds are subject to tax at a rate of 25%, with the remaining income being subject to income tax in the normal way.

How tax may affect your pension savings plans

Lifetime Allowance protections

If your total pension savings are already over £1,073,100 you can apply for LTA protection(s) to help reduce or mitigate the LTA tax charge.

There are two types of protection you can apply for:

Protection	What protection do I get?	Can I keep saving into my pension?	I already have another type of protection in place
Individual Protection 2016	Protects your LTA to the lower of: - the value of your pension(s) at 5 April 2016 - £1.25million	Yes. However, there may be a LTA tax charge on the value of any pension savings that exceed your protected LTA.	You **can** still apply if you already have: - enhanced protection - fixed protection - fixed protection 2014 - fixed protection 2016
Fixed Protection 2016	Fixes your LTA at £1.25million	No. If you do (or have done so after 5 April 2016) you **cannot** apply for Fixed Protection 2016.	You **cannot** apply if you already have: - enhanced protection - primary protection - fixed protection - fixed protection 2014

To apply for either of the protections please visit the HMRC website.

How tax may affect your pension

Further information

To find out more information on the AHBRSP go to the AHBRSP website. For information on the BPS or BSPP, go to the BPS website.

This guide is applicable for the 2020/21 tax year.

Financial advice

The information in this communication and any future communications are intended to help inform and guide you through the changes to the AA and LTA. However, retirement and pension savings is a personal matter and it is your responsibility to ensure you understand the possible impact of the tax changes on your savings, and to make decisions or take actions appropriate to your circumstances.

It's important you consider consulting a financial adviser regarding your individual position - particularly if you would like to contribute more to your pension in this tax year or think you may need to apply for protection (under the LTA). The Company is not able to give financial advice; if you don't have a financial adviser then you can find details at https://www.thepfs.org/yourmoney/find-an-adviser/.

How tax may affect your pension

Appendix

Examples of Annual Allowance and Lifetime Allowance

Annual Allowance:

Example One:
John's P60 earnings are £180,000 and through flexible benefits he also gets a company car and Private Medical Insurance worth £5,000. He also earns £750 a year through dividends and £1,000 interest on savings.

John's Annual Allowance will not be tapered as his Threshold Income is less than £200,000.

Example Two:
Jane's P60 earnings are £200,000. She earns £10,000 a year through a rental property she owns and £5,000 interest on her savings and her Employer's pension contributions are £20,000 per tax year.

Jane's Annual Allowance will not be tapered – although her Threshold Income is more than £200,000, her Adjusted Income is not more than £240,000.

Example Three:
Paul's P60 earnings are £200,000 and he has extra flexible benefits worth £5,000. He has other income of £25,000 which includes dividend payments, rental income and interest on savings. Paul also has a total pension contribution of £40,000.

Paul will be affected - his Threshold Income is more than £200,000 and his Adjusted Income is more than £240,000.

As Paul's Adjusted Income is £30,000 over, his Annual Allowance will be reduced by £15,000 due to the tapering of £1 for every £2 of Adjusted Income over £240,000.

Paul's Annual Allowance is therefore reduced to £25,000.

Lifetime Allowance:

Example:
Mark wants to retire when he reaches 65, in February 2021, at which point he is estimated to receive £5,000 a year income from his DB schemes and have a total fund value of £300,000 from his DC schemes.

The projected value of his total savings to compare against the Lifetime Allowance is:

£5,000 x 20 + £300,000 = £400,000

The Lifetime Allowance in February 2021 will be £1,073,100 so Mark won't be affected.