

# The Impact of 2020 Budget proposals on pensions tax



BDA Head of Pensions  
**Phil McEvoy** on  
what the latest  
Budget means for you

**P**roposals to reform the system of pensions taxation were unveiled in the 2020 Budget which will ease some of the pressure on dentists.

Dentists continue to receive full income tax relief on payments made towards a pension scheme. To limit the amount of tax relief given, two allowances exist which serve to offset income tax relief. Changes were announced to how these limits work from the 2020/21 tax year.

The Lifetime Allowance is increasing from £1,055,000 to £1,073,100. At the point of retirement if your pension savings exceed this level, then a special tax charge is levied on the excess (of either 55%, or 25% plus the rate of income tax you pay in retirement).

The standard Annual Allowance (AA) is £40,000, and no change was announced to this.

A lower (tapered) AA applies for higher earners. To be classified as a higher earner you must breach the Threshold Income and Adjusted Income. The Budget will see increases to both of these – the Threshold Income increasing from £110,000pa to £200,000pa; and the Adjusted Income increasing from £150,000pa to £240,000pa. Breaches of these measures can see the AA available to you reduced to as low as £4,000pa.

Threshold Income is effectively the earnings you receive that are subject to income tax. Adjusted Income is the Threshold Income plus your Pension Input Amount for the tax year.

The AA is applied each tax year and, if your level of pension growth (known as Pension Input Amount) exceeds this, the excess is treated as income and subject to income tax at your marginal rate of 20%, 40% or 45%. The AA tax charge can be offset if you haven't breached the Annual Allowance in any of the previous three tax years (a system known as 'carry forward'). You can pay any AA tax charge through your tax return; or you can ask your pension scheme to pay the AA tax charge for you in exchange for lower pension benefits in retirement.

Pension Input Amounts should be advised to you by your pension scheme through a Pensions Savings Statement. If you do not receive one of these by October, you should request one.

For dentists in England and Wales, the NHS has announced that any Annual Allowance charge arising in the tax year 2019/20 (and which must be declared in tax returns by January 2021) will not result in a reduction in pension benefits, if a member elects for the NHS Pension Scheme to pay this charge.

For those of you concerned you might breach the Lifetime Allowance, this level is equivalent to a guaranteed annual pension of £53,655. Pensions in excess of this will result in a Lifetime Allowance charge.

Alternatively, you might have an annual pension of £40,000, a tax-free lump sum of £120,000 and personal pension savings of £155,000 and also be liable for a charge.

For those concerned about a breach of the £40,000 Standard AA, this will be anybody whose Pension Input Amount exceeds £40,000.

This would be the case for:

→ A member of the 2015 NHS Pension Scheme with pensionable earnings more than £135,000pa, and no historic pensionable service

- A practitioner member of the 1995 NHS Pension Scheme who has already built up a NHS Pension of £50,000pa and who declares £100,000 of net pensionable earnings
- An officer member of the 1995 NHS Pension Scheme with 20 years' service, who receives a pay rise from £80,000pa to £85,000pa.

These are specific examples for illustration only. Despite the reforms, the AA regime remains complex and is an area that should be discussed with accountants and financial advisers.

The Budget's changes to the Threshold and Adjusted Income levels mean many fewer dentists will see their AA reduced, and therefore be subject to lower (or no) AA tax charges. The increase to the Lifetime Allowance is marginal, but will help dentists due to retire soon.

These announcements are positive and follow years of BDA representations to Government, outlining that pension taxes are having a detrimental impact to NHS dentistry. However, the Budget did not provide everything we want. There will still be dentists who still experience an AA charge, and many will breach the Lifetime Allowance. We have lobbied for flexibilities within pension schemes, allowing individuals to pay less for lower pension benefits, which will mean breaches can be better managed without having to opt out of pension saving altogether. We will continue to lobby for this ♦.

Further information is available at [www.bda.org/pensions](http://www.bda.org/pensions) and [www.bda.org/pensions-tax](http://www.bda.org/pensions-tax)