Bonus Sacrifice into the SAP Pension Scheme - Scottish Widows
January 2021

As part of SAP's benefits offering, we are again offering you the option to invest all or part of your March 2021 bonus into your SAP Pension Scheme. This will be paid in free of income tax (subject to the Annual Allowance and relevant limits in tax legislation) and National Insurance Contributions (NICs). In addition, SAP will top-up the amount of bonus sacrificed by passing back into your pension some of their NIC saving, thus increasing your sacrificed amount by a further 7%.

The advantages of bonus sacrifice

- You will not pay income tax or NICs on any sacrificed bonus, (up to the contribution allowance set by tax law).
- SAP will share back their NIC saving, increasing the amount paid to your pension by 7%.
- As the payment for pension purposes is deemed an employer contribution you effectively receive tax relief immediately at the highest rate you pay on income. There is therefore no need to claim any additional tax relief via your self-assessment tax return.

Bonus Sacrifice window opened	**1st February 2021**
Bonus Sacrifice window closed	**26th February 2021**
SAP bonus paid to salary if no sacrifice selected	**26th March 2021**
Bonus Sacrifice paid to SAP Pension with Scottish Widows	**26th March 2021**

How to sacrifice your bonus

The agreement for a bonus sacrifice will be made online through here. You will then need to choose one of the following:

1. Select a percentage of your bonus to be paid into the pension
2. Choose a monetary amount to sacrifice
3. Give an instruction that you only wish to sacrifice your bonus if it is above the amount you have indicated.

Your sacrificed bonus will be paid into the SAP Pension Scheme with Scottish Widows on the 26th March and will count towards the 2020/21 Annual Allowance.

For the sacrifice to work, you must give up the potential bonus before it is treated as received by you for PAYE Income Tax and NIC purposes.

Bonus sacrifice is a highly tax-effective, Government-recognised way for you to save into a UK pension plan. If you take your bonus payment as cash you will be liable to pay PAYE Income tax (45% additional rate, 40% higher rate or 20% basic rate) together with your own personal level of NICs, which is 12% between £9,500 and £50,000 and 2% over this amount. However, by sacrificing this money into your pension plan there is no tax or NICs liability.

SAP will also pass back some of their NIC saving, increasing the amount paid in by 7% of your sacrificed amount.

Examples

Higher rate tax payer with earnings of £50,000 and a bonus of £10,000

Example	Nil bonus sacrifice	Sacrifice 50% of bonus	Sacrifice 100% of bonus
Pre Tax bonus	£10,000	£5,000	£0
Net bonus paid (after tax @ 40% and NIC @2%)	£5,800	£2,900	£0
Pension saving (sacrificed amount plus 7% uplift)	£0	£5,350	£10,700
Total (net bonus plus additional pension contribution)*	£5,800	£8,250	£10,700

*Note that income from pension savings will be subject to tax when it is drawn (although you can take up to 25% of your pension savings as a tax free lump sum and may pay a lower rate in retirement)

Higher rate tax payer with earnings of £100,000 and a bonus of £100,000
Example sacrifice bonus amounts assume that the member has sufficient annual allowance and carry forward relief (see Important Note below).

Example	Nil bonus sacrifice	Sacrifice 25% of bonus	Sacrifice 50% of bonus
Pre Tax bonus	£100,000	£75,000	£50,000
Net bonus paid (after tax @ 40% / 45%, NIC @2% and loss of personal allowance**)	£53,000	£39,750	£26,500
Pension saving (sacrificed amount plus 7% uplift)	£0	£26,750	£53,500
Total (net bonus plus additional pension contribution)*	£53,000	£66,500	£80,000

*Note that income from pension savings will be subject to tax when it is drawn (although you can take up to 25% of your pension savings as a tax free lump sum and may pay a lower rate in retirement)

**You start to lose your personal allowance on earnings over £100,000. The personal allowance reduces by £1 for every £2 earned over £100,000, so that once income reaches £125,000 an individual's personal allowance will be £0.

Important Note: Tax relief is available on the total of all contributions to all pension arrangements, up to the Annual Allowance. There are three Annual Allowances:

- The **Annual Allowance:** A tax charge will be applied if contributions exceed the Annual Allowance. The standard Annual Allowance is £40,000 for tax year 2020/21.
- The **Tapered Annual Allowance (TAA):** The Tapered Annual Allowance was introduced for 2016/17 onwards and only applies to individuals who HMRC regards as being 'high-income individual'. From the 2020/21 tax year, a high-income individual is someone with both:
    - (a) A 'threshold income' of over £200,000 in a tax year (broadly this is all your income from all sources after salary sacrifice for pension and other benefits); and add in any bonus sacrifice or increases to your pension salary sacrifice (i.e. increases in your personal %) since 9th July 2015.

- (b) An 'adjusted income' of over £240,000 in a tax year (broadly this is all your income from all sources including all pension contributions, including your employer pension contributions).

The standard Annual Allowance is then reduced by £1 for every £2 that 'adjusted income' exceeds £240,000. Those with an adjusted income of at least £312,000 will be subject to a maximum Tapered Annual Allowance of £4,000 (the Tapered Annual Allowance is capped at £4,000).

- **Money Purchase Annual Allowance** (MPAA): This is triggered for those individuals who, from April 2015, have started to access income from their money purchase pension arrangements using the new 'pension flexibilities'. The MPAA is £4,000 per annum but only applies to savings into money purchase arrangements (and savings into certain other arrangements with a money purchase component). If you are taking benefits from a pension or think you might have already benefited from flexible access to your pension savings and wish to apply a bonus sacrifice, then you should obtain financial advice before doing so.

You may be liable to a tax charge if contributions exceed any of the above Annual Allowances. Please bear this in mind before committing to the bonus sacrifice and consider seeking professional financial advice.

Further details are given in the FAQ's below.

Frequently Asked Questions (FAQs)

Can I sacrifice my bonus if I am about to leave SAP (UK) Ltd?

You can apply to sacrifice your bonus into the pension provided you remain an employee of SAP (UK) Ltd up to and including the 31st March 2021.

How does the Annual Allowance work?

The Annual Allowance is a test against the total contributions (or pension inputs) with any excess contributions taxed. It is generally collected through an individual's Self-Assessment tax return.

The test covers all the registered pension arrangements that you are a member of, during each plan's 'Pension Input Period', which is generally the tax year (although prior to 6 April 2016 it could have been a different period - see below). The total contribution for each money purchase pension arrangement will be the combined total of both your own and your employer's contributions (including any employer NIC pass back or contributions paid because of a bonus or salary sacrifice).

Separate rules apply for valuing accrual in non-money purchase schemes (Such as Defined Benefit schemes commonly referred to as "Final Salary Pensions") and you should speak to the administrator of those schemes if you need more detail about them.

If you have several pension arrangements, to which you or your employer are either contributing or in which you are accruing new benefits, then each amount for each arrangement must be added together before comparing with the Annual Allowance for that test.

How do I calculate if I am affected by the Tapered Annual Allowance (TAA)?

As mentioned above, the TAA only applies to you if you are a 'high-income individual'. You will be a high-income individual if your 'adjusted income' is over £240,000. For this purpose, 'adjusted income' is all taxable income (including non-employment income such as pension, rent and savings interest) plus the total amount of pension contributions (including total employer contributions to this pension). The standard Annual Allowance is reduced by £1 for every £2 that adjusted income exceeds £240,000. For those with adjusted incomes of £312,000 and over, the Tapered Annual Allowance will reduce to a maximum of £4,000.

Whether you are a high-income individual and affected by the TAA is something that only you can determine as these income definitions are not restricted to just employment earnings but cover all the components of your income. These are facts that neither the SAP, its advisors, nor Scottish Widows can know.

Please bear in mind that your exact level of income in a tax year may only be known once the tax year has ended so your TAA may not be known until after the end of the tax year.

HMRC have an online calculator that helps you calculate your TAA and also assists in identifying if you have unused allowances to 'carry forward'. https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance.

If your total contributions exceed the Annual Allowance or TAA then a tax charge could apply on the excess and this charge will be at your highest marginal rate of tax, unless you have sufficient 'carry forward' relief (see below). For example, if you are a higher-rate (40%) taxpayer and your pension contributions exceed the Annual Allowance by £2,000 you will be required to pay £800 in additional tax (i.e. 40% of £2,000).

What is the 'Carry Forward' facility? Can it help me to avoid an Annual Allowance charge?

It may be possible to avoid an Annual Allowance charge by making use of the carry forward facility if you have unused allowances in the previous three tax years. Carry forward is only available for members who are subject to the standard Annual Allowance or the Tapered Annual Allowance and not available where the Money Purchase Annual Allowance of £4,000 applies as benefits have been accessed flexibly (see following question).

Below is an example based on the standard Annual Allowance:

	2017/18	**2018/19**	**2019/20**	**2020/21**
Annual Allowance	£40,000	£40,000	£40,000	£40,000
Contributions	£20,000	£34,000	£38,000	£62,000
Unused Allowance	£20,000	£6,000	£2,000	-£22,000
Cumulative for use in the following tax year	£20,000	£26,000	£28,000	£6,000

In the table example above:

- In the three tax years 2017/18, 2018/19 and 2019/20 unused Annual Allowance in each year is carried forward resulting in a total cumulative carry forward of £28,000 at the end of 2019/20.

- In 2020/21 deliberately large contributions are made as it is not possible to carry forward further than the last three years' worth of unused allowance. Next, the carry forward facility means that the £20,000 from 2017/18 and then £2,000 from 2018/19 is used.

- This carry forward facility means that no Annual Allowance charge is payable for the 2020/21 tax year.

For the 2020/21 tax year £6,000 is carried forward. This is made up of £4,000 from the 2018/19 tax year and £2000 from the 2019/20 tax year. There is no carry forward from the 2017/18 tax year as all the available allowance was used up.

What is the Money Purchase Annual Allowance (MPAA) and when does it apply?

This is a limit of £4,000 on money purchase contributions (but not defined benefit pension accrual), this limit only applies once you have taken some or all of your money purchase benefits flexibly. Contributions in excess of the MPAA may not be tax efficient.

If you receive any one or more of the following payments, you will be taking benefits flexibly:
- Income from a flexi-access drawdown fund
- An uncrystallised funds pension lump sum (known as an 'UFPLS')
- Income from a flexible annuity
- Income from a drawdown arrangement converted to flexi-access drawdown

Taking a tax-free lump sum (known as a 'pension commencement lump sum' or PCLS) or buying a regular annuity does not trigger the MPAA.

Once triggered, the MPAA will apply for the rest of that tax year and every tax year afterwards. There is no going back. You should seek professional financial advice if you think you may be affected by this or you are looking to take your money purchase benefits flexibly.

Once the MPAA applies then any future money purchase contributions and the accrual of any other benefits that do not promise a defined benefit pension will be tested against the lower limit of £4,000 with any excess being subject to the Annual Allowance charge. Please note that the carry forward facility does not apply to the MPAA of £4,000.

However, membership of, and accrual under, a defined benefit pension scheme is not affected by the MPAA but will still be covered by the overall Annual Allowance restriction (involving the higher limit of £40,000 and carry forward facility described above).

What are Pension Input Periods (PIPs)?

For individuals who are subject to the standard Annual Allowance, the level of contribution is assessed against the Annual Allowance over a period known as a pension input period. Please note that the test is applied based on the date the contribution is received by the pension administrator – not the date in which it was deducted from payroll. From 6 April 2016, all pension input periods are aligned with the tax year. Different pension input periods applied in the past depending on when pension contributions (or accrual) commenced. If you have been in the SAP UK Plan since 2016 this has always been aligned to tax years, however other employers' arrangements may differ and details will need to be obtained from each pension scheme.

Can I wait until a date after I receive my bonus and then make a payment into my SAP Pension Scheme?

Yes. However, the contribution that you make at the later date cannot be made via the bonus sacrifice method. Therefore, it will not qualify for the additional benefits of a personal NIC saving, SAP's NIC pass back and immediate income tax relief (for higher and additional rate taxpayers) without the necessity of obtaining this from HMRC.

Can I change my mind once I have submitted the online request?

No. If you elect to participate in the bonus sacrifice scheme, this will represent a change to the terms and conditions of your employment contract and you do not have the option to change your mind.

Employees must choose to exchange their bonus payments before the payments are processed through payroll. Once you have submitted the form, payroll will begin to process the exchange. Once the payments have been processed, income tax and NICs will have been calculated and it is too late to reverse the process.

Will I receive confirmation that my bonus sacrifice has been accepted?

Yes, you will receive documentation in the post from Scottish Widows.

I already make regular payments into my pension. Will these be affected?

No. This is a separate arrangement applicable only to bonus and does not have any impact on your regular payments. However, you should bear in mind that both regular payments and any bonus sacrifice payments are all affected by the Annual Allowance, TAA and MPAA - see above.

Will participation in the sacrifice affect my State benefits?

State benefits that are earnings related (such as Statutory Maternity pay and Statutory Sick Pay) will be based on the amount of NICs that you pay. NICs would have been payable on your bonus amount if you had not sacrificed it. Therefore, as you will not be paying NICs on the amount you choose to sacrifice, the amount of benefit may be reduced.

How do I decide if a bonus sacrifice is right for me?

The case for taking advantage of higher contribution limits to substantially increase the value of your tax-approved pension plan is very attractive. Please bear in mind the Annual Allowance and the Money Purchase Annual Allowance mentioned earlier. Aside from the generous tax relief for pension contributions, these are some of the factors you should consider when determining whether to make a bonus sacrifice:

- Include all contributions - the Annual Allowance mentioned earlier applies to pension contributions from all sources and to all pension arrangements (i.e. not just this one).
- Investment is locked-in – remember pension planning is long-term - once contributions are invested in the pension you cannot take benefits until the minimum pension age and a refund is not possible even if your financial circumstances change. The minimum pension age is currently age 55, but from 2028 this will increase to age 57 and will be linked to any increase in State Pension Age thereafter (it is anticipated that the minimum pension age will be 10 years

lower than State Pension Age). However, this investment can provide you with both additional cash and income in retirement.

- 25% tax-free cash - when you do decide to take the benefits, you can withdraw up to 25% of the accumulated value in your pension fund in the form of a tax-free cash lump sum, within lifetime allowance limits. Since April 2015, you have been able to take up to 100% of the fund flexibly as a lump sum but only the first 25% will be tax free with the remainder of the lump sum taken as cash, being taxed at your marginal rate. However, as noted above, taking money purchase benefits flexibly means the Money Purchase Annual Allowance applies.
- More flexibility in retirement - current pension rules give you a lot more flexibility in how you structure the benefits for your retirement. You can take cash first and leave the pension until later. You can even use your own fund to provide the pension set at a level you decide you need each year. The pension is taxable as income at a rate based on your total earnings at that time.
- Impact on other benefits - because your total earnings are being reduced, any earnings or contribution-related State benefits may be affected. Contribution-based benefits such as Incapacity Benefit, Jobseekers Allowance and Single-tier State Pension are dependent on you paying National Insurance Contributions. Providing you do not reduce your earnings below the lower earnings limit (£6,240 for 2020/21), there should be no impact. Earnings-related benefits such as Statutory Maternity Pay may also be affected.
- Beware of 55% tax charge - when you take benefits, you will be liable to pay a tax charge if the accumulated value of all your pension schemes exceeds the Lifetime Allowance, currently set at £1,073,100 (2020/21). If the Lifetime Allowance is exceeded, then a tax charge of 55% is payable on the excess if it is taken as cash. Alternatively, the excess can be taken as income, in which case a tax charge of 25% applies to the capital value of the pension, with subsequent payments of the pension being subject to the appropriate level of income tax. This will not affect most people but make sure you take the value of any previous pensions in your previous pensions if you are thinking of sacrificing a large amount.

Where will my bonus sacrifice payment be invested?

Scottish Widows will invest any bonus sacrifice payment in accordance with your current investment instructions for regular monthly contributions. If you have not made an active investment instruction your contributions and any bonus sacrifice payment will be invested in the default. You can amend your investment instructions by re-directing future contributions and / or switching existing funds at any time – by either contacting Scottish Widows, or managing your account online.

What are the charges for the SAP pension?

The SAP UK Ltd pension has an annual management charge (AMC) of 0.25% per annum, which is deducted from the value of your fund. (For example: £25 for each £10,000 average fund value throughout each year). This applies to the default fund and a number of the funds managed by Scottish Widows. Other funds have a higher AMC, and details on these can be found on the benefits site.

If you have any queries regarding the Lifetime Allowance, Annual Allowance or more information on your pension please contact the benefits helpdesk or call 0207 204 1327.

Important Notes:

- The Company reserves the right to amend or discontinue the bonus sacrifice arrangement at any time in the future.
- This guide has been prepared in conjunction with our advisors and aims to give you a high level overview of the bonus sacrifice arrangement offered for any bonus payment that may become due in March 2021.
- The information in this document is based on our understanding of the tax and legal position as of January 2021, which may be subject to change.
- This document is for reference purposes only and in no way constitutes financial advice or infers the suitability of bonus sacrifice.
- We would always strongly recommend you seek professional financial advice before proceeding.