AJBell Investcentre

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Scheme Pays

Background

With the introduction of the Tapered Annual Allowance, and the reduction in the Money Purchase Annual Allowance, it is likely that more and more people will breach the limits and find themselves liable to an Annual Allowance charge of one form or another.

'Scheme Pays' is a mechanism by which the Annual Allowance charge can be paid out of a pension scheme, rather than by the member personally. This has the advantage of the member not having to find additional funds to pay the charge.

An Annual Allowance charge arises when any of the Annual Allowances are exceeded. There are now four different Annual Allowances in place:

1. Annual Allowance (AA)
   - £40,000 for 2016/17 and 2017/18 tax years
2. Money Purchase Annual Allowance (MPAA)
   - £10,000 for 2016/17 tax year; £4,000 for 2017/18 tax year
3. Tapered Annual Allowance (TAA)
   - Varies between £10,000 - £40,000 depending on income
4. Alternative Annual Allowance (AAA)
   - £30,000 or less for 2016/17 tax year; £36,000 or less for 2017/18 tax year (may be reduced by the taper)

The Alternative Annual Allowance only applies to defined benefit pensions when the MPAA has been triggered and exceeded.

Those who have not flexibly accessed their pension benefits (i.e. have not triggered the MPAA) can still use carry forward to reduce or eliminate any charge. If the MPAA has been triggered then carry forward can only be used in relation to defined benefit accrual.

Where can Scheme Pays be used?

Scheme Pays can be used where:

- the Annual Allowance charge for the tax year exceeds £2,000, **and**
- the pension input amount for the pension scheme for the same tax year exceeds the Annual Allowance.

In reference to Scheme Pays, it is the AA that must be exceeded, i.e. £40,000. If only the MPAA or TAA has been exceeded then Scheme Pays cannot be used. However, it may still be possible to use 'Voluntary Scheme Pays' instead – see following section.

Scheme Pays can only be used when the £40,000 Annual Allowance is exceeded.

For the scheme to be required to pay the charge the member must notify the scheme by 31 July in the tax year two years after the tax year to which the Annual Allowance charge relates. For example, for a charge relating to the 2016/17 tax year the notification must be received by 31 July 2018. The member cannot notify the scheme before the end of the tax year in which the charge arises.

If the member intends to fully crystallise their benefits, or is approaching age 75 with uncrystallised funds or funds in drawdown, then the notification must be received before the crystallisation/age 75 is reached.

If the two conditions are met, and the scheme is notified before the deadlines stated above, then the scheme will become jointly liable with the member for paying the charge. Once the notification has been submitted, and if the conditions are met, then the member cannot withdraw the notice.

If the member has transferred benefits from the scheme into which benefits were accrued giving rise to the charge, and they would otherwise meet the conditions for Scheme Pays then they can no longer require the ceding scheme to pay the charge, but can instead require the new scheme to pay - providing the notification deadline is met.

Voluntary Scheme Pays

When the conditions for Scheme Pays are not met then a scheme may pay the member's Annual Allowance charge on a voluntary basis.

> Voluntary Scheme Pays can be used to pay any Annual Allowance charge.

This means Voluntary Scheme Pays can be used to pay charges arising from exceeding the MPAA or TAA where the AA is not exceeded. It can also be paid from a scheme other than that which received the contributions relating to the charge. For example, a higher earner in a defined benefit scheme may exceed their Tapered Annual Allowance due to benefit accrual in that scheme, but could have the charge paid on a voluntary basis from a SIPP they also hold.

As the name suggests, schemes do not have to offer this facility and they do not become jointly liable for the charge. As the liability remains with the member, the payment made by the scheme under Voluntary Scheme Pays should be paid by the member's normal Self Assessment deadline, i.e. 31 January in the tax year following that in which the charge arose.

In order to pay an Annual Allowance charge under the voluntary rules the scheme will need confirmation of pension input amounts to other schemes (if applicable), the amount of the charge, and the amount the member wants the scheme to pay. It is possible for the member to pay some of the charge personally, and some from the scheme.

Completing the Self Assessment tax return

Anyone who has exceeded any of the Annual Allowances is required to report this to HMRC by completing a Self Assessment tax return, even if they have not previously completed a return. They will need to complete the 'Additional Information' pages of the tax return (pages SA101 in the paper return). The boxes that need to be completed are in the 'Pensions Savings Tax Charges' section.

Pension Savings Tax Charges

Please read the notes.

7 **Value of pension benefits in excess of your Available Lifetime Allowance, taken by you as a lump sum**
£ . 0 0

8 **Value of pension benefits in excess of your Available Lifetime Allowance, not taken as a lump sum**
£ . 0 0

9 **Lifetime Allowance tax paid by your pension scheme**
£ . 0 0

10 **Amount saved towards your pension, in the period covered by this tax return, in excess of the Annual Allowance**
£ . 0 0

11 **Annual Allowance tax paid or payable by your pension scheme**
£ . 0 0

12 **Pension scheme tax reference number** - read the notes
PSTR

13 **Amount of unauthorised payment from a pension scheme, not subject to surcharge**
£ . 0 0

14 **Amount of unauthorised payment from a pension scheme, subject to surcharge**
£ . 0 0

15 **Foreign tax paid on an unauthorised payment (in £ sterling)**
£ . 0 0

16 **Taxable short service refund of contributions (overseas pension schemes only)**
£ . 0 0

17 **Taxable lump sum payment (overseas pension schemes only)**
£ . 0 0

18 **Foreign tax paid (in £ sterling) on boxes 16 and 17**
£ . 0 0

In box 11 you should enter the amount that the scheme has paid, or will pay, under either Scheme Pays or Voluntary Scheme Pays.

HMRC has produced guidance on completing the Pension Savings Tax Charges section, and a working sheet to calculate the amount of the charge. Both these documents can be found here:

https://www.gov.uk/government/publications/pensions-tax-charges-on-any-excess-over-the-lifetime-allowance-annual-allowance-special-annual-allowance-and-on-unauthorised-payments-hs345-self

The Annual Allowance charge is calculated by adding the amount of excess pension savings to income for the year, then Income Tax is payable at the appropriate rate, which may be across different tax brackets.

An important point to remember is that the Annual Allowance charge is not penal, it is simply reclaiming the tax relief that the individual is not entitled to above the Annual Allowance. Effectively this means that the excess pension contribution is not tax-relieved. It is important that higher and additional rate tax payers claim their higher/additional relief via Self Assessment in the usual way, so the Annual Allowance charge offsets it.

Our process for Scheme Pays and Voluntary Scheme Pays

If you would like to use Scheme Pays or Voluntary Scheme Pays please contact us for the appropriate form. In all cases we will require a copy of the member's Self Assessment form including the pension savings tax charges section with details of the Annual Allowance excess, and the amount to be paid by the scheme.

If Voluntary Scheme Pays is being used and contributions have been made into other pension schemes that have led to the Annual Allowance charge, a pension savings statement for the relevant tax year is required from those schemes. There is a charge for Voluntary Scheme Pays as per our charges and rates.