

Annual Allowance: The Scheme Pays Facility

Individuals who exceed the annual allowance limit in a tax-year and do not have sufficient 'carry forward' available from the previous 3 tax-years will have an annual allowance charge. This charge is payable at the individual's marginal tax-rate.

Information on how the charge works can be found on HMRC's website at:
<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM06108000.htm>

There are two methods of paying the annual allowance charge, either by:

- the individuals own self-assessment form; or
- 'Scheme Pays'.

Individuals can elect to pay the annual allowance charge via their self-assessment; they do not have to choose to pay the annual allowance charge by Scheme Pays. This factsheet provides details on the Scheme Pays facility and how it will operate.

How Scheme Pays Works

HMRC have introduced the option for members of a pension scheme to elect for the scheme to pay all or part of their annual allowance charge for that scheme in relation to tax years from 2011/12 onwards in certain circumstances – this is called 'Scheme Pays'.

There are 3 main conditions that the individual must meet to be able to qualify for this are:

- They exceed the annual allowance in the relevant tax year from 2011/12 onwards.
- They have an overall tax charge of more than £2,000 from all their pension schemes
- in the same relevant tax year.
- They have not taken all their benefits in the scheme.

In some other circumstances an individual may not be able to elect for scheme pays, for example, if they have a guaranteed minimum pension and their scheme pays election would mean that their benefits would be reduced below this level.

If the individual elects for Scheme Pays, they will be subject to a permanent and irrevocable reduction in their benefits. Dependents benefits payable on death will not be affected.

HMRC have confirmed that for the tax-year 2011/12 the irrevocable scheme pays option has to reach HSC Pension Scheme by 31 December 2013. From the tax-year 2012/13 the irrevocable scheme pays option has to reach HSC Pension Scheme by 31 July 2014 and for subsequent tax-years must be submitted by 31 July in the year following the end of the tax year to which the annual allowance charge relates.

The member will have to give their notice by an earlier date if, in the tax year, the following events will happen:

- If they expect to take all of their benefits from the pension scheme in the tax year to which their liability relates then they must tell the pension scheme before they become entitled to those benefits.
- The member must tell the pension scheme before they reach age 75 if they will reach age 75 in the tax year to which their liability relates. (The reason for this is that Pension benefits in the HSC Pension Scheme must be taken at age 75)

Where the annual allowance charge arises across more than one pension scheme, members can only request HSC Pension Service to pay the proportion of the tax charge that relates to the HSC Pension Scheme provided the growth in the HSC Pension Scheme exceeds £50,000.

All the details of how Scheme Pays will operate on a practical level in the HSC Pension Scheme and the HSC Money Purchase AVC Scheme have not yet been confirmed.

The following gives a brief update of the current position, but once more is known the HSC Pension Service website will be updated with further information on how the process works.

HSC Pension Scheme

1995 Section Members:

If a member elects for scheme pays then their benefits will be permanently reduced. The reduction will be based on the amount paid to HMRC for scheme pays and increased by interest, from the 1 April each year based on 3% plus CPI (on the rate at the previous September), until the benefits are paid either at retirement, when benefits are transferred or a pension share is implemented.

At retirement the member's pension and lump sum will be permanently reduced. This reduction will be based on the total amount of scheme pays plus the accumulated interest divided by a factor, which will be supplied by the Scheme's Actuaries.

The reduction will not be applied to dependent's benefits or where the member dies either in membership or with deferred benefits.

If a member transfers out the total amount of scheme pays plus the accumulated interest will be deducted from the amount to be transferred.

2008 Section Members:

The same process applies to 2008 Section members as described above for the 1995 Section members, except that there will not be a reduction to any lump sum payable. A separate set of factors will be supplied by the Scheme's Actuaries to take account of this.

HSC Money Purchase AVC Scheme

If there is a Scheme Pays reduction this will be immediately deducted from the individual's fund.