Business Services Organisation
HSC PENSION SERVICE

Your Future In Our CARE
HSC Pension Service

HSC Pension Service - Annual Allowance – Scheme Pays facility for transition members

You should read this factsheet if you are a transition member and have established that you have an Annual Allowance charge and are considering making a scheme pays election to HSC Pension Service.

Mandatory Scheme Pays

If you have an Annual Allowance charge and certain conditions are met, you can ask HSC Pension Service to pay some or all of your Annual Allowance charge in return for a reduction in your HSC benefits.

We will only pay the charge if we receive a scheme pays election notice within HMRC deadlines and the following mandatory conditions are met:

1. pension growth in the 1995/2008 Scheme **or** the 2015 Scheme exceeds the standard Annual Allowance, and

2. your total Annual Allowance charge is more than £2,000, and

3. your election form is received by HMRC's mandatory Scheme Pays deadline.

Voluntary Scheme Pays

We will accept a Scheme Pays election on a voluntary basis provided the following conditions are met:

1. pension growth when added together from both the 1995/2008 Scheme **and** 2015 Scheme exceeds the standard Annual Allowance, and
2. your total Annual Allowance charge liability is more than £2,000, and
3. your election form is received by the mandatory Scheme Pays deadline.

Mandatory or voluntary Scheme Pays

The amount of pension input period in either the 1995/2008 Scheme, the 2015 Scheme or the total amount of both when added together will determine whether your Scheme Pays election is mandatory or voluntary.

The table below confirms on what basis we will accept your Scheme Pays if the conditions on page one are met.

<table>
<tr><th>HSC Scheme</th><th>Pension Input Amount</th><th>Total Amount</th><th>Scheme Pays</th></tr>
<tr><td>1995/2008</td><td>Under Standard Annual Allowance</td><td rowspan="2">Under</td><td>No Scheme Pays</td></tr>
<tr><td>2015</td><td>Under Standard Annual Allowance</td><td>No Scheme Pays</td></tr>
<tr><td>1995/2008</td><td>Under Standard Annual Allowance</td><td rowspan="2">Over</td><td>Voluntary</td></tr>
<tr><td>2015</td><td>Under Standard Annual Allowance</td><td>Voluntary</td></tr>
<tr><td>1995/2008</td><td>Under Standard Annual Allowance</td><td rowspan="2">Over</td><td>Voluntary</td></tr>
<tr><td>2015</td><td>Over Standard Annual Allowance</td><td>Mandatory</td></tr>
<tr><td>1995/2008</td><td>Over Standard Annual Allowance</td><td rowspan="2">Over</td><td>Mandatory</td></tr>
<tr><td>2015</td><td>Under Standard Annual Allowance</td><td>Voluntary</td></tr>
<tr><td>1995/2008</td><td>Over Standard Annual Allowance</td><td rowspan="2">Over</td><td>Mandatory</td></tr>
<tr><td>2015</td><td>Over Standard Annual Allowance</td><td>Mandatory</td></tr>
</table>

Tapered Annual Allowance

There is no requirement for a scheme to accept a Scheme Pays election for the tapered Annual Allowance on a mandatory basis and the HSC Pension Scheme will not accept a voluntary Scheme Pays election for an Annual Allowance charge in respect of the tapered Annual Allowance.

Calculating how much the 1995/2008 Scheme and 2015 Scheme can each pay

How much of your Annual Allowance charge the 1995/2008 Scheme and 2015 Scheme can pay on your behalf depends on the amount of pension input amount in each Scheme.

1. **Pension input amounts for 1995/2008 Scheme and 2015 Scheme are each under the standard Annual Allowance but when added together the total amount exceeds the standard Annual Allowance**

Two pension savings statements will be issued when the pension input amounts added together from the 1995/2008 Scheme and 2015 Scheme are over the standard Annual Allowance, even where the pension input amount in each is under the standard Annual Allowance. A Scheme Pays election will be accepted by us on a voluntary Scheme Pays basis if the conditions set out on page one are met.

Example 1.

For 2015/2016 Peter has a combined pension input amount of £16,000 in the 1995/2008 Scheme and £54,000 in the 2015 Scheme; totaling £70,000. These combined amounts are split between the pre-alignment and post-alignment periods as follows:

Scheme	Combined Pension Input Amount	Pre-alignment (1/4/15-8/7/15)	Post-alignment (9/7/15-5/4/16)	Annual Allowance	Over Annual Allowance	Carry Forward
1995/2008	£16,000.00	£4,268.80	£11,731.20			
2015	£54,000.00	£14,407.20	£39,592.80			
Total	**£70,000.00**	**£18,676.00**	**£51,324.00**	**£40,000**	**£11,324.00**	**£1,700.00**

For the pre-alignment period the Annual Allowance limit was £80,000 and his pension input amount, when added together from the 1995/2008 Scheme and 2015 Scheme, was
£18,676.00. There is no Annual Allowance charge liability here because his pension growth was less than the Annual Allowance.

Although he had £61,324 (£80,000 - £18,676.00) of unused Annual Allowance from this period HMRC will only permit him to carry forward up to £40,000 from the pre-alignment period to the post-alignment period.

For the post-alignment period the Annual Allowance limit is the £40,000 carried forward and the total pension input amount was £51,324.00. As the pension input amount was more than the £40,000 he must rely on any unused Annual Allowance from tax years 2014/2015, 2013/2014 or 2012/2013.

Peter calculates that he has £1,700.00 of unused Annual Allowance to carry forward in order to offset against the £11,324.00 pension input amount which exceeds the Annual Allowance of £40,000. This results in an actual excess of £9,624.00 (£11,324.00 - £1,700.00).

His marginal rate of tax for 2015/2016 was 40% therefore he has an Annual Allowance charge of £3,849.60. His options are to either pay this charge directly to HMRC or ask HSC Pension Service for Scheme Pays.

HMRC have confirmed that for 2015/2016 the standard Annual Allowance for mandatory Scheme Pays is £40,000. Peter does not meet the conditions for mandatory Scheme Pays in the 1995/2008 Scheme because the pension input amount is under £40,000. However, because his total pension input amount is over the standard Annual Allowance he meets the voluntary scheme pays conditions for the 1995/2008 Scheme.

The charge will be split between the HSC Pension Schemes as follows:

1995/2008 Scheme:

£16,000 x £3,849.60 = £879.91 (accepted on a voluntary Scheme Pays basis)

£70,000

2015 Scheme

54,000 x £3,849.60 = £2,969.69 (accepted on a mandatory Scheme Pays basis)
£70,000

2. Pension input amounts in one or both HSC Pension Schemes is greater than the Annual Allowance

Two pension savings statements will be issued when the pension input amounts in the 1995/2008 Scheme and 2015 Scheme when added together are over the Annual Allowance, even where one of those pension input amounts is under the Annual Allowance.

A Scheme Pays election will be accepted by us on either a mandatory or voluntary Scheme Pays basis if the conditions set out on page one are met.

Example 2

For 2016/2017 Claire has a pension input amount of £10,000 in the 1995/2008 Scheme and £67,000 in the 2015 Scheme; totalling £77,000.

Scheme	Pension Input Amount (6/4/16-5/4/17)	Annual Allowance	Over Annual Allowance	Carry Forward
1995/2008	£10,000.00			
2015	£67,000.00			
Total	**£77,000.00**	**£40,000**	**£37,000.00**	**£15,000**

Claire has no pension savings in any other pension scheme and her accountant confirms she is not affected by the Tapered Annual Allowance. She has £15,000 of unused Annual Allowance that she can carry forward from the previous three tax years.

She calculates that she has an Annual Allowance charge of £8,800.00, based on his marginal rate tax of 40% tax on £22,000. She has the option of paying this charge directly to HMRC or asking us for Scheme Pays.

Claire does not meet the conditions for mandatory Scheme Pays from the 1995/2008 Scheme because her pension input amount is under the Annual Allowance.

However, because her total pension input amount is over the Annual Allowance she does meet the conditions for voluntary Scheme Pays. She is eligible for mandatory scheme pays from the 2015 Scheme. The charge will be split between the HSC Pension Schemes as follows:

1995/2008 Scheme:

£10,000 x £8,800.00 = £1,142.86 (accepted on a voluntary Scheme Pays basis)

£77,000

2015 Scheme

£67,000 x £8,800.00 = £7,657.14 (accepted on a mandatory Scheme Pays basis)
£77,000

Completing a Scheme Pays election – form SPE2

You will need to complete a separate Scheme Pays election for each HSC Pension Scheme. We **must** receive the election before HMRC's deadline.

Please see factsheet 'Scheme Pays Election Guidance Notes' on the Tax Information pages of our website, for more information about how to complete the SPE2 election and HMRC's Scheme Pays deadline.

What you should be aware of when asking for voluntary Scheme Pays

If we pay your Annual Allowance charge on a voluntary Scheme Pays basis you remain liable for this charge, unlike mandatory Scheme Pays we do not become jointly liable. Even though we will pay over the charge on your behalf you will remain solely liable until it is paid.

You will be responsible for any interest HMRC may charge where the Annual Allowance charge is paid after the self-assessment tax return deadline. We **will not** pay any interest charges in respect of a voluntary Scheme Pays election.

You need to report the amount of Annual Allowance charge being paid by the 1995/2008 Scheme and 2015 Scheme on your self-assessment tax return.

The following table explains the differences between mandatory Scheme Pays and voluntary Scheme Pays

	2015/2016		2016/2017	
Scheme Pays	Mandatory	Voluntary	Mandatory	Voluntary
Conditions	Pension input amount in 1995/2008 Scheme or 2015 Scheme greater than the Annual Allowance and an Annual Allowance charge of more than £2,000	Same as mandatory conditions plus: the combined pension input amount across both HSC Schemes is greater than the Annual Allowance	Pension input amount in 1995/2008 Scheme or 2015 Scheme greater than the Annual Allowance and an Annual Allowance charge of more than £2,000	Same as mandatory conditions plus: the combined pension input amount across both HSC Schemes is greater than the Annual Allowance
Election deadline	31 July 2017		31 July 2018	
Liability	Shared – You and HSC Pension Service	You	Shared – You and HSC Pension Service	You
Charge deadline	14 February 2018	31 January 2017	14 February 2019	31 January 2018
Interest	Nil if the HSC Pension Service makes payment by 14 February 2018	From 31 January 2017 to date HSC Pension Service makes payment	Nil if the HSC Pension Service makes payment by 14 February 2019	From 31 January 2018 to date HSC Pension Service makes payment