

Annual Allowance Charge and SPE2 Guidance Notes – Tax Years 2016/17

These notes are to assist you in considering whether to elect for the HSC Pension Scheme to pay the Annual Allowance charge on your behalf.

Telling HM Revenue and Customs (HMRC) about the Annual Allowance charge

You do not need to tell HMRC about the total pension input amount of your pension savings if this amount is:

- below the Annual Allowance or
- above the Annual Allowance but you have enough unused Annual Allowance from the previous three tax years therefore you have no liability to an Annual Allowance charge.

What you need to do if your pension savings exceed the Annual Allowance?

You will need to tell HMRC if the total pension input amount of your pension savings is above the total of the Annual Allowance for the tax year plus unused amounts of Annual Allowance carried forward from the three previous tax years, as you will be subject to an Annual Allowance charge.

If you normally complete a Self-Assessment tax return, then you must tell HMRC about your pension savings and liability to the Annual Allowance charge as part of this return. You will need to complete the Additional Information pages of the tax return to show the amount by which your total pension input amount exceeds the Annual Allowance.

HMRC have published a help sheet - HS345 'Pensions - tax charges on any excess over the Lifetime Allowance, Annual Allowance and on unauthorised payments' on their website at

<http://www.hmrc.gov.uk/helpsheets/hs345.pdf> to assist you when completing your tax return.

If you haven't completed a tax return before (or it's been some time since you last did) you will need to complete a registration form to get a tax return. <http://www.hmrc.gov.uk/sa/forms/sa1.pdf>

What is a scheme pays election?

If you are subject to an Annual Allowance charge you may be able to elect for the HSC Pension Scheme to pay some or all of the charge on your behalf.

HSC Pension Service will only pay the Annual Allowance charge from the HSC Pension Scheme if we receive a scheme pays election on time and you meet the mandatory requirements prescribed by HMRC. The mandatory requirements are that:

- your Annual Allowance charge liability for the relevant tax year has exceeded £2,000 and
- the total pension input amount of your pension savings in the NHS Pension Scheme, for the same tax year, has exceeded the Annual Allowance.

Where a scheme pays election is made and the HSCPS pay your Annual Allowance charge, then your HSC Pension Scheme benefits will be permanently reduced in line with factors provided by the scheme actuary.

Before making your decision about scheme pays we recommend you read the information published in the Annual Allowance section of our website, which includes the factsheet 'Annual Allowance – Estimating the Cost of Scheme Pays'. The Annual Allowance section is located at:

<http://www.hscpensions.hscni.net/employers/employers-library-2/annual-allowance-2/>

How will the Annual Allowance charge be recovered?

If you elect for the HSC Pension Scheme to pay part or all of your Annual Allowance charge to HMRC on your behalf then your pension benefits will be permanently reduced when they are paid.

Interest will be added to the amount of Annual Allowance charge paid. The interest applied will be based on the September Consumer Price Index (CPI) figure plus 3%. Interest will be from 1 January following receipt of your scheme pays election. For tax years 2011/12 and 2012/13 this will be from 1 January 2014.

The total balance owing will be converted by factors provided by the scheme actuary into an amount to be recovered from your pension benefits.

- 1995 section - If you take your benefits then your pension and lump sum will be permanently reduced.
- 2008 section - If you take your benefits then your pension will be permanently reduced.
- **2015 scheme - If you take your benefits then your pension will be permanently reduced.**

In the event of your death your dependents benefits will be based on your pension before any recovery for scheme pays.

If you transfer your pension rights to another registered pension scheme, then the amount of transfer value will be reduced.

The Annual Allowance scheme pays election

If you decide that you want HSC Pension Service to pay some or all of your Annual Allowance charge in respect of the growth in your HSC Pension Scheme benefits only, then you will need to complete an Annual Allowance scheme pays election.

HSC Pension Service currently has two election notices for payment from the HSC Pension Scheme, these are:

SPE1 For members retiring due to ill health who are accepted for Tier 2 ill health

SPE2 For all other members

A separate election is available from HSC Pension Service for members to request scheme pays in respect of the HSC AVC Scheme

HSC Pension Service will reject any request for scheme pays not made on one of the above election notices.

Completing the scheme pays election

You should only complete a scheme pays election if you want HSC Pension Service to pay some or all of your Annual Allowance charge from the HSC Pension Scheme.

If you exceed the Annual Allowance in more than one tax year then a separate election form must be completed for each tax year.

Part A: Personal details

Please complete every question in this part.

Your email address and telephone number are required in case we need to contact you about any information you provide in Part B.

If you do not qualify for a national insurance number then you should attach a letter setting out the reasons for this – this is a requirement from HMRC.

Part B: Annual Allowance Charge Details

You must confirm the total amount of Annual Allowance charge you require the HSC Pension Service to pay on your behalf to HMRC. Please note this figure is not the pension input amount confirmed in your pension savings statement.

The Annual Allowance charge is not at a fixed rate but will depend on how much taxable income you have and the amount of your pension saving in excess of the Annual Allowance, taking into consideration any unused Annual Allowance from the previous three tax years.

To find out how much you will pay, you will need to work out the rate of tax that would be charged if your excess pension savings were added to your taxable income and based on your marginal income tax rate. A calculator to aid you with this is available on HMRC's website at:
<http://www.hmrc.gov.uk/tools/pension-allowance>

The relevant tax year is the tax year in which the Annual Allowance charge occurred. For example, for the pension input period of 1 April 2011 to 31 March 2012 the relevant tax year is 2011/12.

If you are completing an additional election in order to amend a previous election for the same relevant tax year, either because the Annual Allowance charge has increased or decreased, then please tick the box to indicate this. The amount of Annual Allowance charge must be the total amount of Annual Allowance charge you want HSC Pension Service to pay on your behalf.

Example: If the previous election quoted an Annual Allowance charge of £10,000 and this has increased and you now want HSC Pension Service to pay the additional £2,000 then you should input £12,000 at part B.

HMRC confirm the following marginal rates of tax:

- Pension input period 1 April 2011 to 31 March 2012 - 20%, 40% and 50%; and
- Pension input period 1 April 2012 to 31 March 2013 - 20%, 40% and 45%.

The amount of the Annual Allowance charge can be in whole or in part at 50%/45% (depending upon the tax year – see above), 40% or 20% depending on your taxable income and the amount of their pension savings that are in excess of the Annual Allowance.

HMRC have provided guidance on how to calculate the Annual Allowance charge on their Registered Pension Scheme Manual at:

<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM06108100.ht>

You must confirm the marginal rate of tax that applies to the Annual Allowance charge. If there is a combination of tax rates separately please provide us with details of the tax rates and the amount of Annual Allowance charge subject to each tax rate.

Part C: Scheme Pays Member Declaration

Please read the declaration carefully, then sign and date the election. It is important that you note the deadlines below for the date the election must be received by HSC Pension Service. Any election received after the deadline date will be rejected.

By signing the declaration form you:

- confirm that you are subject to an Annual Allowance charge that exceeds £2,000 as a direct result of your pension savings in the HSC Pension Scheme exceeding the Annual Allowance; and
- understand that the election is irrevocable, that interest is applicable on the amount paid and that your HSC Pension Scheme benefits will be permanently reduced when paid.

If you intend to retire or transfer out then the election must reach HSC Pension Service before the payment is authorised and paid. Therefore please make sure your election is sent with your retirement application form or form TV18 if you are transferring out.

The election must reach HSC Pension Service before your 75th birthday.

What is the deadline for a scheme pays election to be made?

If you want HSC Pension Service to pay some or all of your Annual Allowance charge for the 2011/12 tax year then we must receive your completed scheme pays election on or before 31 December 2013. It is not enough just to send your election by that date, therefore please consider the possible effect that Christmas post may have on receipt of the election at HSC Pension Service

For the tax year 2012/13 we must receive your election no later than 31 July 2014. For later tax years the deadline will also be 31 July. Again it is not enough just to send your election by that date.

Changing the amount you have asked HSC Pension Service to pay

After you have made an election requiring HSC Pension Service to pay an amount of your Annual Allowance charge you can complete a new election if there is a change to the amount of your Annual Allowance charge. This could occur if you received a provision pension savings statement and the Annual Allowance charge is more, or less, than you realised when you sent in your original election. Remember to tick the box at Part B.

There is a time limit for making a new election to change the amount of Annual Allowance Charge you want HSC Pension Service to pay. Your amended election must be received by HSC Pension Service no later than the 31 July following the end of the period of 4 years from the end of the

relevant tax year to which your Annual Allowance charge liability relates.

For example, if your liability relates to the tax year 2011/12 your election to change the amount you have already asked us to pay must be received by HSC Pension Service no later than 31 July 2016.

Where there is a decrease in the annual allowance charge HSC Pension Service will make a claim to HMRC for a refund to the HSC Pension Scheme.

HSC Pension Service can refuse to pay your Annual Allowance charge?

Under certain circumstances HSC Pension Service has a statutory right to refuse to pay your Annual Allowance charge if you:

- miss the statutory time limits for a scheme pays election to be made;
- do not meet HMRC's mandatory conditions;
- are aged 75 or over and your election was not received before your 75th birthday;
- are retiring but did not send the election with your retirement application form. If your pension benefits have been authorised for payment it will not be possible to exercise scheme pays and your election will be rejected;
- leave the HSC Pension Scheme and HSC Pension Service has paid a transfer value to another registered pension scheme it will not be possible to exercise scheme pays and your election will be rejected.

In addition HSC Pension Service can make a request to HMRC not to pay your Annual Allowance charge if you have insufficient funds in the Scheme to pay the amount of tax you have elected for us to pay.

Is it possible for you to change your mind and withdraw the scheme pays election?

Once HSC Pension Service receives your election you cannot then change your mind and withdraw your request. You should therefore ensure you fully understand the implications of your decision on your future pension benefits before completing the scheme pays election.

The only exception would be where you have completed a scheme pays election in error. This would be because you:

- did not actually have any Annual Allowance charge liability for the tax year concerned or
- you did have a liability but it did not exceed £2,000 or
- you had a liability that exceeded £2,000, because you have pension savings in more than one pension scheme, but your pension savings in the HSC Pension Scheme alone did not exceed the Annual Allowance.

What if you have more than one pension scheme?

If you have more than one pension scheme in which your total amount of pension savings exceeded the Annual Allowance for the tax year you can make elections requiring each scheme to pay all or some of the Annual Allowance charge relating to that scheme.

The amount of tax you can require each scheme to pay is based on the amount of pension saving in the scheme that is in excess of the annual allowance. You cannot, for example, make an election requiring HSC Pension Service to pay all of your Annual Allowance charge liability for the year where part of that liability relates to another pension scheme nor can you simply require each scheme to pay an equal share of your total liability.

Where your Annual Allowance charge liability exceeds £2,000 for the relevant tax year but your pension savings for that year in the HSC Pension Scheme and any other pension scheme did not exceed the Annual Allowance you cannot make an election to require HSC Pension Service (or any other pension scheme) to pay toward your liability.

Further information

Information about Annual Allowance and Scheme Pays is available on our website at:

<http://www.hscpensions.hscni.net/employers/employers-library-2/annual-allowance-2/>

More detailed information about Annual Allowance can also be found on HMRC's website at

<http://www.hmrc.gov.uk/>

NHS Pensions recommends that you read the relevant pages relating to Annual Allowance in HMRC's Registered Pension Scheme Manual to ensure you understand what you are undertaking. The Annual Allowance (from 6 April 2011) pages can be found at:

<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM06105000.htm>

Important:

This factsheet reflects HSC Pension Service current understanding of HMRC's overriding legislation. It is important to note that HSC Pension Service is unable to provide advice on personal tax circumstances. HSC Pension Service would recommend that independent advice is sought if you have any uncertainty about any tax implications.