

Pension Scheme Pay Elections

(Lecture P1194 – 13.16 minutes)

Introduction

FB 2020 will greatly reduce the number of taxpayers affected by the annual allowance (AA) tapering rules. It raises the two relevant income limits (both of which must be exceeded for tapering to apply) by £90,000, to £200,000 and £240,000 respectively. The latter applies to 'adjusted income', which includes employer pension inputs.

Some taxpayers will still suffer AA tax charges, which arise where pension inputs exceed the AA. The latter remains £40,000 before taper. Even more taxpayers will have to deal with charges that have arisen in the period up to 5 April 2020, particularly where they are in defined benefit (DB) schemes and have had a significant increase in salary (and commensurate increase in pension benefit accrual) during the tax year concerned.

A benefits statement, which will show annual pension inputs, should be requested from all DB schemes, as they are not sent out automatically.

'Scheme Pays' facility

An election is available to get the pension scheme to pay any tax arising on the AA charge, if that tax is greater than £2,000. This election may be either 'mandatory' or 'voluntary'.

For Scheme Pays to be mandatory you must meet the conditions specified by HMRC, which are:

- Your total AA charge tax liability for the tax year exceeds £2,000;
- The amount of your pension growth in the scheme alone was more than the AA in the relevant year; and
- You give your notification to the scheme within the statutory timescale.

Voluntary Scheme Pays (VSP) applies where the tax charge is due to:

- pension input across more than one scheme, or
- a tapered annual allowance.

Under VSP, the pension scheme does not have to agree to settle the tax charge on behalf of the member.

Impact of Scheme Pays

The member does not have to settle the AA tax charge via self assessment. Instead, the amount will be recovered by the scheme:

- when your benefits are paid at retirement, impacting both pension and (if appropriate) lump sum; or
- if you transfer out of your pension scheme.

Scheme Pays debits are increased by the CPI.

Deadline

You must tell your pension scheme by the 31st July in the year following the year to which the AA tax charge relates. E.g. if you want your scheme to pay your AA tax charge for 2018/19, then you must tell your scheme no later than 31 July 2020.

You will have to send your election before the deadline if:

- You expect to retire - your completed election must be submitted before your pension is authorised;
- You reach age 75 - your completed election must be received before your 75th birthday.

Clients with DB schemes should be told to inform their advisors of any major change in circumstances (e.g. promotion, large pay rise) ASAP, which will highlight the need to get a benefits statement.

If you do not have the information available to calculate the exact amount of AA charge for the relevant year, you can estimate it. You can then complete a scheme pays election using the estimated figures.

Once you have received a final benefits statement, you can amend your tax return within 12 months of submitting the original. You can then submit a revised scheme pays election.

Other Scheme Pays points

If you die whilst still a member of your pension scheme, any recovery due because of Scheme Pays will be written off. Your heirs will receive the same level of death benefits as if you hadn't utilised Scheme Pays.

Dependents' benefits are also unaffected, being based on your pension before any recovery for Scheme Pays.

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