



Annual Allowance – Scheme Pays election guidance notes for the tax year 2017/18

Please retain these guidance notes for your information

These notes are to assist you in considering whether to elect for Shropshire County Pension Fund (SCPF) to pay an Annual Allowance (AA) charge on your behalf.

Important

This guidance reflects SCPF's current understanding of HMRC's overriding legislation. It is important to note that we are unable to provide advice on personal tax circumstances. We would recommend that independent advice is sought if you have any uncertainty about any tax implications.

What is a Scheme Pays election?

Mandatory Scheme Pays

If you are subject to an AA charge you may be able to elect for SCPF to pay some or all of the charge on your behalf. We will pay the mandatory AA charge if you meet the mandatory requirements prescribed by HMRC. The mandatory requirements are that:

1. Your total AA tax charge across all schemes for the relevant tax year has exceeded £2,000;
2. The pension input amount for the same tax year, in the scheme in question alone has exceeded the standard AA;
3. We receive your election by the deadline.

If the conditions are met then the scheme administrator becomes jointly and severally liable (with the member) for the AA charge and must pay this to HMRC within a given timescale.

Voluntary Scheme Pays

Where a member does not meet the requirements for Mandatory Scheme Pays to apply or they do not make their nomination in time, they may ask the Fund to pay the AA tax charge on a voluntary basis. SCPF is willing to take Voluntary Scheme Pays elections where the member incurs a charge that is less than £2,000 and/or due to a tapered AA. Unlike Mandatory Scheme Pays the scheme **would not** have joint and several liability for the tax charge so the liability would remain with the member. If the tax charge is also made up of pension savings built up elsewhere, you will have to pay the tax charge directly to HMRC yourself or make alternative arrangements.

If your Scheme Pays election is in excess of the maximum mandatory amount you must tell us the value of your tapered AA.

It is important to note that for any Voluntary Scheme Pays election the part of the tax charge, over and above what could be met through a Mandatory Scheme Pays election, remains the sole responsibility of the member. As such, any delay in payment beyond the 31 January coincident with the fiscal period covered by this Annual Return will attract late payment interest and charges. SCPF takes no responsibility and assumes no liability for any such interest or charges. They cannot be settled by the scheme as part of a Voluntary Scheme Pays election.

What do I need to do if my pension savings exceed the AA?

You will need to notify HMRC if the total pension input amount of all your pension savings is above the total AA for the tax year and any unused amounts of AA carried forward from the three previous tax years is insufficient to counter the excess, as you will be subject to an AA charge. You do not need to notify HMRC if you have no AA charge.

If you normally complete a self-assessment tax return, you must notify HMRC about your pension savings and liability to the AA charge as part of this return. You will need to complete the SA101 - 'Additional Information' pages of the tax return to show the amount by which your total pension input amount exceeds the AA and you will also show the amount your pension scheme has paid, or will be paying, on your behalf. If your scheme has not, or will not, be paying all of your liability for the year you will need to pay the difference to the normal self-assessment deadlines.

HMRC guidance on self-assessment can be found at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454496/sa150-notes_2015.pdf

What is the deadline for a Scheme Pays election to be made?

The deadline is 31 July the year following the AA charge occurred. For the tax year 2017/18 we must receive your election on, or before, 31 July 2019. Any elections received after this date will be rejected. For 2017/18 voluntary elections, late payment and interest charges will accrue from 31 January 2019 until HMRC receives payment. Where possible SCPF will make payment the quarter after it receives all required information. **It is therefore important that Voluntary Scheme Pays elections are received by SCPF by 30 November 2018.**

How will the AA charge be recovered?

If you elect for SCPF to pay part or all of your AA charge, your pension benefits will be permanently reduced in line with factors provided by the scheme actuary.

In the event of your death your dependant's benefits will be based on your pension before any recovery for Scheme Pays.

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

How do I complete the Scheme Pays election?

If you decide that you want SCPF to pay some or all of your AA charge, in relation to the growth in your pension scheme benefits that exceed the AA, you will need to complete a Scheme Pays election form. If you exceed the AA in more than one tax year a separate form must be completed for each tax year.

Part 1: 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, you should attach a letter explaining why – this is a requirement from HMRC.

Part 2: Annual Allowance details

You must confirm the total amount of AA tax charge you wish SCPF to pay on your behalf to HMRC. Please note this is the tax amount in relation to your AA charge liability that exceeds the AA limit, it is not the amount that they have exceeded your SCPF benefits only.

To find out how much you will pay, you 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: www.hmrc.gov.uk/tools/pension-allowance. If you are completing an additional election in order to amend a previous election for the same relevant tax year, either because the AA charge has increased or decreased, please indicate this. The amount of AA charge must be the total amount of AA charge you want SCPF to pay on your behalf not the difference from the initial amount.

Example: If the previous election quoted an AA charge of £10,000 and this has increased and you now want SCPF to pay the additional £2,000 then you should input £12,000

HMRC confirm the marginal rates of tax for 2016/17 and 2017/18 are 20%, 40% and 45%.

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

HMRC have provided guidance on how to calculate the AA charge on their Registered Pension Scheme Manual at: www.hmrc.gov.uk/manuals/rpsmmmanual/RPSM06108100.htm

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

Guidance on working out your reduced (tapered) AA can be found at:

<https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance>

Part 3: 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 SCPF. Any election received after the deadline date will be rejected.

There are three Scheme Pays conditions:

1. your total AA tax charge for the relevant tax year has exceeded £2,000 and
2. the pension input amount of your pension savings with SCPF, for the same tax year, has exceeded the standard AA
3. we receive your election by the deadline

By signing the declaration form, you confirm that at least one of the following apply:

- You have a Mandatory Scheme Pays liability and meet conditions 1, 2 and 3 above with your pension input with SCPF
- You have a Voluntary Scheme Pays liability and meet conditions 1, 2 and 3 above with your pension input with SCPF
- You have a Voluntary Scheme Pays liability due to a reduced AA, and have confirmed what your reduced AA is. You meet conditions 1 and 3 above.

You also confirm that you understand that the election is irrevocable, and that your pension scheme benefits will be permanently reduced and that this reduction will increase with CPI until the time that your benefits are paid.

If you intend to retire or transfer out of the scheme your election must reach us before the pension or transfer payment is authorised and paid. Therefore, please make sure your election is sent with your retirement application form or options form if you are transferring out. The election must reach us before your 75th birthday.

Changing the amount you have asked SCPF to pay

After you have made an election asking us to pay an amount of your AA tax charge, and there is a change to the amount you are required to pay, you must complete a new election form. This could occur if you received a provisional pension savings statement and the AA charge is more, or less, than you realised when you sent in your original election.

There is a time limit for making a new election to change the amount of AA charge you want us to pay. Your amended election must be received by us no later than 31 July following the end of the period of 4 years from the end of the relevant tax year to which your AA charge liability relates.

For example, if your liability relates to the tax year 2016/17 your election to change the amount you have already asked us to pay must be received no later than 31 July 2021.

Can SCPF refuse to pay your AA charge?

Under certain circumstances SCPF has a statutory right to refuse to pay your AA charge and your Scheme Pays election will be rejected if you:

- miss the statutory time limits for a Scheme Pays election to be made
- do not meet HMRC's mandatory conditions or the voluntary conditions applicable to our scheme
- are aged 75 or over and your election was not received before your 75th birthday
- are retiring but we did not receive your election before your pension benefits have been authorised for payment
- leave the scheme and SCPF has paid a transfer value to another registered pension scheme

In addition, we can make a request to HMRC not to pay your AA 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 to change your mind and withdraw the Scheme Pays election?

Once we receive your election you cannot 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 didn't meet the mandatory conditions.

What if I have more than one pension scheme?

If you have more than one pension scheme in which your total amount results in an AA charge you can make elections asking each scheme to pay all or some of the AA charge relating to that scheme.

The amount of tax you can ask each scheme to pay is based on the amount of pension saving in the scheme that is in excess of the AA. You cannot, for example, make an election asking SCPF to pay all of your AA charge liability for the year where part of that liability relates to another pension scheme, nor can you ask each scheme to pay an equal share of your total liability.

Any delay in payment beyond 31 January will attract late payment interest and charges. SCPF takes no responsibility and assumes no liability for any such interest or charges. They cannot be settled by the scheme as part of a Voluntary Scheme Pays election.

Further information

Information about AA and Scheme Pays is available on our website at:
www.shropshirecountypensionfund.co.uk

More detailed information about AA can also be found on HMRC's website at:
<http://www.hmrc.gov.uk/pensionschemes/calc-aa.htm>

SCPF recommends that you read the relevant pages relating to AA in HMRC's Registered Pension Scheme Manual to ensure you understand what you are undertaking. The AA (from 6 April 2011) pages can be found at: www.hmrc.gov.uk/manuals/rpsmmanual/RPSM06105000.htm