

# **London Borough of Hounslow Pension Fund Scheme Pays Policy**

## **Annual Allowance**

The Annual Allowance (AA) is the amount by which the value of a scheme members' pensions benefit may increase in any one year without having to pay a tax charge.

This is in addition to any income tax paid on pensions once it is in payment. If the value of pension savings in any one year (including pension savings outside of the LGPS) exceeds the annual allowance, the member will be taxed on the excess as income. The annual allowance is set each year by HM Treasury and is £40,000 for the tax year 2020/2021. The AA amount can be tapered to a minimum £4,000 for high earning scheme members.

Where the tax charge incurred is greater than £2,000 the member has a mandatory right under Section 237B of the Finance Act 2004 'Liability of Scheme Administration', to ask the Hounslow Pension Scheme to pay the tax charge. This is known as Mandatory Scheme Pays. The scheme is required to pay the tax charge to the HMRC and reduce future benefits of the scheme member using the calculation guidance issued by the Government Actuarial Department (GAD). Conditions apply which are set out below.

## **Mandatory Scheme Pays**

Where a member has a tax charge as a result of breaching the Annual Allowance, they have a right to Mandatory Scheme Pays from the Hounslow Pension Fund when all of the following criteria are met:

- The member's Annual Allowance tax charge exceeds £2,000.
- The member has a Pension Input Amount within the LGPS in England and Wales exceeding the standard Annual Allowance.
- An irrevocable election for Mandatory Scheme Pays is made by 31 July in the year following that in which the tax charge arose (i.e. for a tax charge arising from the 2019/20 year the mandatory Scheme Pays election must be made by 31 July 2021) or before they retire, if earlier.
- The member's full retirement benefits from the Fund are not yet in payment.

HMRC views the Local Government Pensions Scheme (LGPS) as one scheme though each of the schemes in England and Wales are locally managed by a separate administering authority. Members should therefore take their benefits across all LGPS schemes into account.

## **Voluntary Scheme Pays**

The list below shows some potential situations in which a member may have incurred a tax charge but does not have an entitlement to Mandatory Scheme Pays. In these situations the member can ask the scheme to consider a Voluntary Scheme Pays election, but the scheme does not have to agree. This list is not intended to be exhaustive:

- The member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance, and their Pension Input Amount in the LGPS exceeds their Tapered/Money Purchase Annual Allowance but does not exceed the Standard Annual Allowance.
- The member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance, and their Pension Input Amount in the LGPS exceeds both the Tapered/Money Purchase Annual Allowance and the Standard Annual Allowance – there is a right to Mandatory Scheme Pays in respect of the input above the Standard Annual Allowance, but not for the input between the Tapered/Money Purchase Annual Allowance and the Standard Annual Allowance.
- The member met all the other criteria for a Mandatory Scheme Pays election, but did not make the election by the 31 July deadline.
- The member has not exceeded the Annual Allowance based on their pension benefits in the LGPS in England and Wales, but in aggregate across all pension arrangements they have exceeded the Annual Allowance and the member's total tax charge when taking input from other arrangements into account is more than £2,000.
- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but also has a tax charge relating to input in a separate pension arrangement and wants to use Voluntary Scheme Pays from the Fund to cover this as well.
- The member's tax charge is less than £2,000. There is no time limit set in the legislation for an election for Voluntary Scheme Pays (if permitted), but members should note that if the tax is not paid by 31 January in the year following the year in which the tax charge arises (i.e. 31 January 2021 for a tax charge arising in the 2019/20 year) interest and late payment penalties will be due.

Interest and late payment penalties do not apply for tax charges that are settled by Mandatory Scheme Pays, assuming the member provides the appropriate notifications to HMRC via self-assessment or otherwise, because in this circumstance the member and the Administering Authority are jointly and severally liable for the payment of the tax charge, whereas the member remains solely liable for any tax due that is not covered by

Mandatory Scheme Pays.

### **Hounslow Pension Fund Policy on Voluntary Scheme Pays**

The Fund will consider applications for Voluntary Scheme Pays in the following circumstances:

- A member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance and has a tax charge of more than £2,000 relating to input
- in the Hounslow Pension Fund, and the irrevocable election is received by 31 December following the end of the tax year in which the input arises (i.e. 31 December 2020 for input in the 2019/20 year).
- A member meets all the criteria for Mandatory Scheme Pays but was unable to meet the 31 July deadline due to an administrative error or omission by the Hounslow Pension Fund.
- The member's tax charge relating to pension input in the LGPS in England and Wales is less than £2,000, but they have applied for Voluntary Scheme Pays because their total tax charge when taking input from other arrangements into account is more than £2,000, and the irrevocable election is received by 31 December following the end of the tax year in which the input arises (i.e. 31 December 2020 for input in the 2019/20 year).
- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but has also asked the Fund to pay a tax charge relating to input in a separate pension arrangement, and the irrevocable election is received by 31 December following the end of the tax year in which the input arises (i.e. 31 December 2020 for input in the 2019/20 year).
- The member's total tax charge, including when taking input from other arrangements into account is less than £2,000. Hounslow Pension Fund has not set a minimum level of tax charge that the member must face before they can make an application but will consider each such request on its merits.
- A Voluntary Scheme Pays request in any other scenario will be considered on its merits.

Following the acceptance of an election for Voluntary Scheme Pays, the member's future benefits will be reduced using the calculation guidance issued by the Government Actuarial Department (GAD).

## **Members approaching retirement**

There are situations where a member may breach the Annual Allowance in the Pension Input Period in which they retire, even if they retire relatively near the start of the tax year. This could be, for example, where there has been an ill health enhancement (and the member did not meet the severe ill-health condition under S229(4) of the Finance Act 2004) or a large pay increase, bonus or service enhancement before or at retirement.

Where a member breaches the Annual Allowance in the tax year in which they receive their final retirement benefits, Scheme Pays can only be used if the election is made and processed before the benefits are put into payment (or "crystallise").

Otherwise members will have to pay the tax charge directly. Members in this situation may choose to pay the tax charge using any lump sum payable on retirement.

The Fund will issue an individual pension savings statement to those active members who become a pensioner member during the Pension Input Period and who have exceeded the standard Annual Allowance. This will be provided when the retirement benefits are notified rather than under the usual timescales. This gives the member the time to determine whether a Mandatory Scheme Pays option applies and/or whether they wish to make an election for Mandatory or Voluntary Scheme Pays. If the member wishes to use Scheme Pays they should contact Hounslow Council well before the retirement date so that the relevant reduction can be calculated and applied before the benefits are put into payment.

### **Please note:**

**It is the member's responsibility to notify the Fund of the amount of tax due. The Fund cannot calculate this as it does not have details of the input from the member's other arrangements.**

**This policy does not in any way constitute finance or tax advice. Members are requested to seek independent advice where appropriate.**