

Annual Allowance Scheme Pays

Questions and Answers



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1. What should I do if my pension savings exceed the annual allowance and I have a tax charge?

You'll have to pay an **annual allowance charge** if:

- The growth in your pension savings exceeds the annual allowance threshold in a tax year, **and**
- You don't have sufficient unused annual allowances from your previous three tax years (known as 'carry forward') to offset the excess

If this happens, you'll need to report and arrange payment of the annual allowance charge to HM Revenue & Customs (HMRC). To report the charge to HMRC, you'll need to complete a Self Assessment tax return.

2. How do I complete a Self Assessment tax return?

If you haven't completed a Self Assessment tax return before (or it's been some time since you did), you'll need to complete a registration form to let HMRC know what's changed and to get a unique tax reference number that will enable you to make a return. There is help available on this at www.gov.uk/log-in-file-self-assessment-tax-return

If you normally complete a Self Assessment tax return, you must tell HMRC about your pension savings and liability for the annual allowance charge by completing the 'Pension savings tax charges' section of the return. If you're not completing the return online, you'll need form SA101. The Pension Scheme Tax Reference number for the LGPS is 00329946RE.

3. How do I calculate the annual allowance charge?

Calculating your annual allowance charge can be a complex process. In some instances, it can be as simple as applying a single rate of tax to your annual allowance excess after taking off any unused carry forward. However, your earnings and annual allowance excess (after taking off any unused carry forward) might fall into more than one tax band, so could involve applying different rates of tax.

To calculate how much unused carry forward you have and how this might affect your excess pension savings, you need to use the 'HMRC annual allowance calculator' at www.tax.service.gov.uk/pension-annual-allowance-calculator/

4. How do I pay the annual allowance charge and when do I have to pay it by?

You can either:

- Pay the charge yourself as a Self Assessment taxpayer (and declare this on your tax return), or
- Provided certain conditions are met, you can ask the Environment Agency Pension Fund (EAPF) to pay the charge on your behalf using the scheme pays option.

If you choose to pay the charge yourself, you'd normally have to do this by the Self Assessment payment deadline, which is usually 31 January following the end of the tax year you're being charged for. However, if you're eligible and want HMRC to automatically collect the tax you owe from your wages or pension that's in payment, the deadline is 30 December.

Regardless of whether you pay the charge yourself, or whether you ask the scheme to pay the charge on your behalf using the scheme pays option, you'll need to tell HMRC of your annual allowance charge on your Self Assessment tax return. If you're electing for scheme pays, you'll need to confirm that you're doing this.

5. When can't I pay an annual allowance charge through my tax code?

If you want HMRC to automatically collect the tax you owe from your wages or pension that's in payment, you won't be able to do this through your PAYE tax code if:

- You don't have enough PAYE income for HMRC to collect it
- You'd pay more than 50% of your PAYE income in tax
- You'd end up paying more than twice as much tax as you normally do

6. What is 'scheme pays'?

The Government recognises that people may not have the cash to pay the annual allowance charge. Therefore, if the charge relates to your pension savings in the EAPF, you can ask us to meet some or all of the charge on your behalf in return for a permanent reduction to your annual pension. This option is called 'scheme pays'.

Please note that you'll **have the right** to use scheme pays (known as Mandatory Scheme Pays), if:

- The annual allowance charge is £2,000 or more, and
- The annual allowance charge relates to an increase in your pension savings during the relevant tax year above £40,000 in the EAPF, and
- You elect for scheme pays no later than the second 31 July following the end of the tax year in which the annual allowance charge relates (i.e. for a charge in the 2022/23 tax year, you must elect for scheme pays by 31 July 2024)

However, if you're retiring and become entitled to all of your benefits from the LGPS and you want the EAPF to pay some or all of the tax charge on your behalf (with the relevant deduction being applied to your benefits), you must tell Capita before you become entitled to those benefits. Capita will tell you more about this and the time limits that apply when they send you your retirement options.

If you think your benefits exceed the annual allowance and want to use the Mandatory Scheme Pays option, you should contact Capita as soon as possible, as strict deadlines apply. You could:

- Ask for the EAPF to pay some of your annual allowance charge to HMRC on your behalf through the scheme pays option, and
- Pay the rest of the charge direct to HMRC (your election for scheme pays doesn't have to be for the full amount).

Alternatively, if you have an annual allowance charge to pay but you **don't have the right** to use Mandatory Scheme Pays, you may still be able to elect for the scheme to pay on your behalf; however, this is only if the EAPF agrees to your request (if agreed, this is known as Voluntary Scheme Pays). If you don't have the right to use Mandatory Scheme Pays, but you'd like to use Voluntary Scheme Pays, you may apply in writing to Capita, giving your reasons for wanting to use Voluntary Scheme Pays.

7. How will the annual allowance charge be recovered if I choose to use the scheme pays option?

If you apply for scheme pays, the charge will be recovered from your annual pension by reducing it permanently. This is sometimes referred to as a 'scheme pays debit'.

8. By how much will my benefits be reduced if I use the scheme pays option?

If you use the scheme pays option, a scheme pays debit is placed on your pension account, which has effect from the last day of the tax year in which the annual allowance charge arose. The size of the scheme pays debit depends on a number of factors, such as:

- The amount of the annual allowance charge you want the EAPF to pay on your behalf, and
- How close to retirement you are i.e. your age and normal pension age (NPA) under the Scheme, which is the later of your state pension age or age 65

Where the annual allowance charge is met by the Fund, any reduction to your pension benefits will be calculated in line with guidance issued by the Department for Levelling Up, Housing and Communities.

Below is an example of how a scheme pays debit reduces the annual pension:

Example – member, age 60, NPA 66 on the last day of the tax year in which the annual allowance charge arose (5 April)

Annual allowance charge = £3,000

Age related factor = 16.91

£3,000 / (16.91) = £177.41 annual scheme pays debit, applied from 5 April of the tax year in which the annual allowance charge arose

In this example, as the scheme pays debit is linked to the member's NPA (66), the scheme pays debit will be adjusted to take into account whether the member's pension is brought into payment before or after their NPA.

Consequently, if the above member's pension was brought into payment at:

- Age 61 – a reduction of 20.9% would be applied to the scheme pays debit, as the member's pension is being paid 5 years before their NPA
- Age 64 – a reduction of 9.3% would be applied to the scheme pays debit, as the member's pension is being paid 2 years before their NPA
- Age 67 – a late retirement increase of 3.65% would be applied to the scheme pays debit, as the member's pension is being paid 1 year after their NPA

In all cases, once the scheme pays debit takes effect it is adjusted each year by the cost of living until the benefit comes into payment.

9. Will the scheme pays debit affect my dependants' benefits from the EAPF?

No, the scheme pays debit won't impact on any dependants' pensions (spouse's, civil partner's, eligible cohabiting partner's or eligible children's pensions) that may become payable.

10. How will scheme pays affect my lifetime allowance?

Where your EAPF benefits are reduced because of a scheme pays debit, it's the capital value of your **reduced** EAPF benefits that are tested against the lifetime allowance. Please note that the lifetime allowance is expected to be removed from legislation with effect from 6 April 2024.

11. What if I have more than one pension scheme or arrangement?

If you have:

- Been a contributing member of the EAPF, and
- Also been a contributing member of another pension scheme or arrangement (including another LGPS fund) during the same tax year,

The value of any rights built up in the other pension scheme or arrangement at the end of the relevant tax year must be added to the value of the rights you hold in the EAPF to determine the total value of your pension savings for the tax year.

When you've exceeded the annual allowance in more than one pension scheme or arrangement, the EAPF will only pay the annual allowance charge in respect of the growth in your EAPF pension benefits that exceeds the annual allowance. If none of the benefits individually exceed the annual allowance but do exceed the annual allowance in total, you will not be eligible for Mandatory Scheme Pays.

12. How do I request a scheme pays estimate and find out how much I would pay?

If your pension growth in the EAPF exceeds the annual allowance in any tax year, we'll automatically send you a pension savings statement (PSS) by 6 October of that year. The PSS will show how much your EAPF pension has grown, together with any carry forward you have in respect of your EAPF pension. If you have other pension savings, you'll need to ask the administrator of that pension scheme or arrangement for a PSS to work out your total pension savings.

However, if your pension growth in the EAPF doesn't exceed the annual allowance, you can still have a PSS if you'd like one; you just need to ask Capita for one. You'll find their contact details at the end of this factsheet.

If you exceed the annual allowance, you'll need to work out the annual allowance charge payable, using the guidance given in point 3 ('How do I calculate the annual allowance charge?'). If you're unsure, you should seek independent financial advice.

We also have some useful factsheets, 'The Tax controls on pension savings' and 'Your Pension Savings Statement explained', which are available on our website at www.eapf.org.uk/resources/publications.

When requesting a scheme pays estimate, you must tell us how much of the annual allowance charge you want the scheme to pay (this is **not** the 'pension savings' amount shown on your PSS) and the tax year in which the annual allowance charge occurred.

On receipt of your estimate request, we'll then provide you with the estimated cost to you of using the scheme pays option.

Please note:

- See the information provided on your pension savings statement and read the factsheets on our website to establish whether you have an annual allowance charge and if you do, how you'd work out how much that charge is. You'll find more information about tax rates and help on working out your carry forward and annual allowance charge at:
 - www.gov.uk/income-tax-rates
 - www.tax.service.gov.uk/pension-annual-allowance-calculator
 - www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056100
- If you're retiring, you must put the request in writing to Capita before completing any further election forms that have been sent to you as part of your retirement options letter.

13. Should I make a scheme pays election?

The EAPF can't give you any financial advice. You'll need to consider what the best option is for you and your own individual circumstances. For example, whether you're able to pay the annual allowance charge from your current income or savings or whether you'd prefer to make an election for the EAPF to meet the charge for you from your pension, under the scheme pays option.

Whatever you decide to do, you should make sure that you fully understand the implications of making a scheme pays election on your future EAPF benefits.

How you decide to pay the annual allowance is an important decision, and this is why we recommend you consider your own position and seek independent financial advice from an adviser with knowledge of the LGPS and the options open to you. **You can get free and impartial money advice by visiting www.moneyhelper.org.uk**, which was set up by the government.

14. I meet the scheme pays conditions, I've received an estimate and want to use the scheme pays option – what happens next?

If you:

- Meet the Mandatory Scheme Pays conditions (or where the EAPF has allowed for you to use Voluntary Scheme Pays); and
- Decide you want the EAPF to pay some or all of the annual allowance charge on your behalf (in respect of the growth in your EAPF benefits),

You'll need to complete the election form that was sent to you with the scheme pays estimate and return this back to Capita. A completed election form, confirming your intention to use the scheme pays option, can't be revoked at a later date.

15. Are there any circumstances in which you would reject my scheme pays election?

The EAPF are **not required** to pay the annual allowance charge on your behalf if:

- You don't meet the Mandatory Scheme Pays conditions,
- The whole of the annual allowance charge doesn't relate to your EAPF benefits,
- The scheme pays election notice hasn't been received within the statutory specified deadlines,
- You're already drawing your EAPF pension benefits,
- You're over age 75 and the election wasn't received before your 75th birthday,
- You've transferred out of the EAPF or have taken a refund of your pension contributions,
- You don't have enough pension left to pay the annual allowance charge when the permanent reduction is applied to your benefits. This includes if your benefits are subject to a minimum amount, known as a Guaranteed Minimum Pension (GMP), and the reduction for the annual allowance charge reduces your pension below the GMP.

If any of the above scenarios apply, the EAPF don't have to accept your scheme pays election. However, you could ask for the EAPF to pay your annual allowance charge under the Voluntary option, though you'll need their agreement for this to be processed successfully.

16. What is the application deadline for using scheme pays?

You can't make an election before the end of the tax year in which the annual allowance charge arises (unless you're approaching retirement or transferring out).

If you meet the criteria for Mandatory Scheme Pays, you should give your election no later than 31 July following the January in which the annual allowance charge must be declared on your tax return.

Although there's no deadline for a Voluntary Scheme Pays request, you should give your notification no later than 31 January (as the tax due date is the same as your tax return deadline).

The statutory deadlines for Mandatory Scheme Pays are shown below:

Tax year	Annual allowance charge reported on return	Deadline
2020/21	31 January 2022	31 July 2022
2021/22	31 January 2023	31 July 2023
2022/23	31 January 2024	31 July 2024

However, if you're retiring and become entitled to all of your benefits from EAPF, you must tell us well before your retirement, as you must elect to use 'scheme pays' before we process your retirement. If you want an estimate for the scheme pays option, please make sure you've contacted us with your request by the date specified in your pension savings statement.

If you're transferring your EAPF benefits, you must tell us of your intention to use this option before the payment is made.

You must also tell us of your election before you reach age 75, and whether you'll be age 75 in the tax year to which your liability relates. This is because in the LGPS pension benefits **must** be taken by age 75.

17. Can we help?

If you want a scheme pays estimate and an election form, you can contact Capita using the details below. For our factsheet and explanatory guide, please visit www.eapf.org.uk/resources/publications

Contact details

If you have any questions regarding your pension entitlement you can contact our pension administrator, Capita, by:

 Using the 'Ask us a question' form on our website at www.eapf.org.uk

 Emailing info@eapf.org.uk

 Following on Twitter
[@EAPensionFund](https://twitter.com/EAPensionFund)

 Calling **0800 121 6593**
+44 114 452 5008 (overseas)

 Sending your query to
Capita
11b Lingfield Point
Darlington, DL1 1AX

Disclaimer: We have based this leaflet on our current understanding of the scheme pays rules and the GAD guidance. The GAD guidance referred to in this leaflet is dated 27 July 2023. This leaflet is for information only and does not cover every personal circumstance. The issues involved are complex and EAPF therefore cannot provide any personal guidance or advice. Having considered your own position however, you may wish to take your own personal independent advice from an adviser with knowledge of the LGPS.