

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?

If:

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

you'll have an **annual allowance charge**; if this happens, you need to report and pay the annual allowance charge to HM Revenues & 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 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 LGPS' Pension Scheme Tax Reference number is 00329946RE.

If you haven't completed a 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 tax return. There is help available on this at www.gov.uk/log-in-file-self-assessment-tax-return

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*, though, in other instances, it can involve applying different rates of tax to different parts of the excess*.

Further details on determining the relevant rate(s) of tax and calculating your AA charge can be found in HMRC's 'Pensions Tax Manual' at www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056110

*after taking off any unused 'carry forward'

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 EAPF to pay the charge on your behalf using the 'scheme pays' option.

If you choose to pay the charge yourself, you would normally have to do this by the Self-Assessment payment deadline, which is usually 31 January following the end of the previous tax year. However, if you're paying the charge direct to HMRC online, 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, and if electing for scheme pays, confirm that you're doing this.

5. What is 'scheme pays'?

The Government recognises that people may not have the cash to pay the annual allowance charge. Therefore, if the charge comes from your pension savings with the Environment Agency Pension Fund (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;
- The annual allowance charge is for pension savings is above £40,000 in the EAPF; and
- You elect for scheme pays no later than 31 July following the end of the tax year after the tax year in which the annual allowance charge relates to (i.e. for a charge in the 2016/17 tax year, you must elect for scheme pays by 31 July 2018)

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 (our administrators for the EAPF) before you become entitled to those benefits. Capita will be able to tell you more about this and the time limits that apply.

If you think you'll be affected 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 does not have to be for the full amount).

Alternatively, if you have an AA tax charge to pay, but you **don't have the right** to use Mandatory Scheme Pays, you may still be able to elect for scheme pays, though only if the EAPF agrees to your request (if agreed, this is known as Voluntary Scheme Pays). If this applies to you, you may apply in writing to Capita, giving the reasons for wanting to use Voluntary Scheme Pays.

6. 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'.

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

This depends on a number of factors at the relevant date*, such as:

- The amount of the annual allowance charge you want the EAPF to pay on your behalf
- Your age & current normal pension age (NPA) under the Scheme (the later of your state pension age (SPA) or age 65)
- Your gender
- How close to retirement you are

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 Ministry of Housing, Communities and Local Government.

* The relevant date (also known as the 'implementation date') is the last day of the pension input period to which the annual allowance charge relates.

Below is an example on how scheme pays reduces the annual pension:

Example – Female, age 60 at the relevant date

Annual allowance charge = £3,000

Age/gender related factor = 15.95

Normal Pension Age (NPA) factor = 0.95 (based on a State Pension Age [SPA] of 66)

$£3,000 / (15.95 \times 0.95) = \mathbf{£197.99}$ annual scheme pays deduction to pension

As the scheme pays deduction is linked to the member's NPA (66), it will be adjusted to take into account whether the member's pension is brought into payment before or after their NPA.

If, for example, the above member's pension was brought into payment at:

- Age 61 – a reduction of 22.2% 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 9.9% 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 is set up it is adjusted each year by the cost of living.

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

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

9. How will scheme pays affect my lifetime allowance?

Where your EAPF benefits are reduced because of scheme pays, it is the capital value of your **reduced** EAPF benefits that are tested against the lifetime allowance.

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

If you:

- have been a contributing member of the EAPF; and
- have 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 held in EAPF. This is to determine the total value of your pension benefits when working out your pension's growth.

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 pension benefits with us.

The maximum amount you can ask any other scheme to pay is based on the amount of your growth in benefits that exceeded the annual allowance limit in **that scheme alone**.

11. 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 year, we'll automatically send you a pensions saving statement (PSS) by 6 October each 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 only.

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

If you have any other pension schemes, you'll need to liaise with these schemes to work out your total pension growth. 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' available on our website at www.eapf.org.uk/publications When requesting an estimate you must tell us how much of the annual allowance charge you want the scheme to pay (this is **not** the pension input amount shown on your PSS) and the relevant 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 would work out how much that charge is. You'll find more information available on Gov.uk about tax rates and on the HMRC website to help you work out carry forward and annual allowance charges at: www.gov.uk/income-tax-rates, www.hmrc.gov.uk/tools/pension-allowance/index.htm and www.hmrc.gov.uk/manuals/ptmanual/ptm056100.htm
- If 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.

12. Should I make a scheme pays election?

The EAPF cannot give 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 would 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.

These are important decisions and this is why we recommend you consider your own position and seek independent financial advice from an adviser with knowledge of the LGPS about the options open to you. If you don't have your own financial adviser, you can find one by visiting www.unbiased.co.uk and search for an adviser in your area.

13. I meet the scheme pays conditions, have received an estimate and want to make use of 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 which is sent with the estimate, and return this back to Capita. A completed election form, confirming your intention to use the scheme pays option, cannot be revoked at a later date.

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

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

- You don't meet the Mandatory conditions; or
- The whole of the annual allowance charge does not relate to your EAPF benefits; or
- The scheme pays election notice has not been received within the statutory specified deadlines; or
- You're already drawing your EAPF pension benefits; or
- You're over age 75 and the election was not received before your 75th birthday; or
- You've transferred out of EAPF or have taken a refund of your pension contributions; or
- You don't have enough pension left to pay the annual allowance charge when the permanent reduction is applied to your benefits

If any of the above scenarios apply, the Mandatory option won't be available. 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.

15. 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 notification no later than 31 July following the January in which the annual allowance charge must be declared on your tax return.

Although there is 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
2016/17	31 January 2018	31 July 2018
2017/18	31 January 2019	31 July 2019
2018/19	31 January 2020	31 July 2020

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.

16. Can we help?

If you want a scheme pays estimate and an election form, you can contact Capita using the details below.

Visit our website for our factsheet and explanatory guide at www.eapf.org.uk/publications

Contact details

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

 Using the '**Contact the EAPF**' button on the website at www.eapf.org.uk

 Emailing info@eapf.org.uk

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

 Calling **0800 121 6593**

 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 12 April 2016. 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.