

Avon Pension Fund

Local Government Pension Scheme

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Scheme Pays Policy

Appendix 2

Introduction

The Annual Allowance is the amount by which a member's pension savings can grow in a financial year before becoming subject to a tax charge.

Pension growth within the LGPS is calculated in accordance with HMRC legislation, under which a scheme member's pension benefits are measured (using a formula of 16 x pension, plus any lump sum you are automatically entitled to and adding any additional voluntary contributions (AVCs) you or your employer has paid during the year) at the start and end of the financial year, also known as the Pension Input Period (PIP). The difference between these values is known as the Pension Input Amount (PIA) and this is then measured against a member's standard Annual Allowance. You can find the latest Annual Allowance limit on our website at www.avonpensionfund.org.uk/tax-and-your-pension-benefits.

Where the growth in pension savings in the PIP is above the Annual Allowance this is then subject to a tax charge by HMRC. However, a three year carry forward rule allows a scheme member to carry forward any unused annual allowance from the last three PIPs to offset any tax charge.

Avon Pension Fund must notify all members who exceed the Annual Allowance, with the benefits they have accrued within the Avon Pension Fund alone, by issuing them with a pension saving statement no later than 6 October following the end of the relevant tax year.

The scheme member is responsible for reporting to HMRC when they exceed the Annual Allowance on a self-assessment tax return and where the tax charge is less than £2,000 the scheme member pays the tax directly to HMRC. However, where the standard Annual Allowance charge in a tax year exceeds £2,000, scheme members may elect to meet some or all of the tax charge from their future pension benefits. In such cases, the Avon Pension Fund is required to pay this tax charge to HMRC on the scheme member's behalf and then to reduce their future pension benefits accordingly. This is known as the **Mandatory Scheme Pays**.

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 Avon 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

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tax 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.

Following receipt of a Mandatory Scheme Pays election a scheme member will have their pension reduced; the reduction would then be applied at retirement. The reduction is calculated in accordance with the guidance issued by the Secretary of State for Communities and Local Government in conjunction with consultation by the Governments Actuary Department (GAD).

Under Mandatory Scheme Pays the scheme member and the Pension Fund are jointly and severally liable for the tax charge.

Tapered Annual Allowance

In the tax year 2016/17, HMRC amended the Annual Allowance rules by introducing the tapered Annual Allowance for employees with taxable income in excess of £110,000, this was subsequently increased to £200,000 with effect from the 2020/21 PIP. From the 2020/21 PIP, a scheme member's Annual Allowance will be tapered when their taxable income plus the growth in their pension benefits exceeds £240,000 in a financial year. For every £2 of taxable income over the excess of £240,000 the standard Annual Allowance is reduced by £1. However, this is subject to a minimum tapered Annual Allowance of £4,000.

There is no Mandatory Scheme Pays available for any tax charge relating to excess growth on a scheme member's tapered Annual Allowance – this can only be paid by the Pension Fund under **Voluntary Scheme Pays**.

Voluntary Scheme Pays

In addition to the tapered Annual Allowance scenario above, there are also some other potential situations in which a member may have incurred a tax charge, but does not have an entitlement to Mandatory Scheme Pays, and as such can ask Avon Pension Fund to pay the tax due on their behalf under Voluntary Scheme Pays. The table below lists some of the more common scenarios and stipulates what Avon Pension Fund's policy is:-

Scenario	Avon Pension Fund's Policy
Where a member's pension savings within the Fund is subject to the tapered annual allowance, and that scheme member's total Voluntary Scheme Pays tax charge is £2,000 or more	The Fund will not accept such an election
Where a member's tax charge in respect of the LGPS is less than £2,000	The Fund will not accept such an election
Where a member makes a valid Mandatory Scheme Pays election in respect of the LGPS, but has a tax charge relating to another pension arrangement which they are requesting the Fund to meet on their behalf	The Fund will not accept such an election

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Where a member has an annual allowance charge of more than £2,000 because they have exceeded the annual allowance by virtue of savings across multiple pension schemes, without exceeding the annual allowance in any one scheme	The Fund will not accept such an election
Where a member meets the Mandatory Scheme Pays criteria, but due to an administrative oversight (e.g. failure to provide the required pension savings statement) on the part of the Fund, was unable to make their election within the required timescale	Such an election will be accepted by the Fund
Where a member meets the Mandatory Scheme Pays criteria, but due to their own oversight (i.e. not an administrative oversight on the part of the Fund) fails to make their election within the required timescale	The Fund will not accept such an election
Where a member fails to make a 'mandatory Scheme pays' election before they have become entitled to all of their benefits under the Scheme	Such elections will be considered by the Fund on a case by case basis

A Voluntary Scheme Pays request in any other scenario will be considered on its individual merits.

There is technically no statutory deadline for scheme members to request to use the Voluntary Scheme Pays option. However, subject to the administering authority's approval, the tax charge payment to HMRC must be made before 31 January in the following tax year to ensure additional interest charges are not incurred by the scheme member.

For example, if the charge relates to the tax year 2019/20 then payment must be received by HMRC by 31 January 2021. To allow Avon Pension Fund to pay Voluntary Scheme Pays tax charges by 31 January a deadline of the 31 December in the preceding year has been set for applications to be received by.

The scheme member has sole liability for the Annual Allowance tax charge under the Voluntary Scheme Pays option, so even though the Pension Fund may pay over the amount of tax on the scheme member's behalf, the scheme member remains solely liable for the amount of tax due until the administering authority has paid it to HMRC.

Following receipt of a Voluntary Scheme Pays election a scheme member will have their pension reduced; the reduction would then be applied at retirement. The reduction is calculated in accordance with the guidance issued by the Secretary of State for Communities and Local Government in conjunction with consultation by the Governments Actuary Department (GAD).