

Scheme Pays Factsheet

This factsheet is designed for the use of the Scottish NHS, Teachers', Police and Firefighters' Pension Schemes and can be read in conjunction with the member's guides

Factsheets are designed to give a brief overview. They do not cover every aspect and further information can be obtained from the member and employer guides. Full details are contained in the rules of the scheme which are available on our website – www.sppa.gov.uk

This factsheet provides information for members who are considering whether or not to elect SPPA to pay the Annual Allowance (AA) charge on their behalf.

What is scheme pays election?

A Scheme Pays election is where a member who is subject to an AA charge, elects for the relevant pension scheme to pay the charge on their behalf.

Mandatory Scheme Pays

The NHS, Teachers', Police and Firefighters' schemes will pay the mandatory AA charge if the scheme receives a Scheme Pays election notification by the election deadline and the member meets the mandatory requirements prescribed by HM Revenue and Customs (HMRC).

Where a Scheme Pays election is made, the member's benefits are reduced in line with factors provided by the scheme actuary.

What are the mandatory requirements?

The mandatory requirements of HMRC are as follows:

- your total AA charge liability for the tax year exceeds £2,000
- the amount of your pension growth in the scheme alone was more than the AA in the relevant year (i.e. £40,000 for 2014 -15)
- you give your notification to the scheme within the statutory timescale

Voluntary Scheme Pays

From the 2016/17 tax year, for all pension savings that have accrued since 6 April 2016, members who become subject to an Annual Allowance tax charge but who are unable to meet the mandatory conditions above can ask the scheme (NHS, Teachers, Fire or Police schemes) to meet this tax charge on their behalf through Voluntary Scheme Pays option.

The SPPA will not accept scheme pays if the member does not have an annual allowance tax charge arising singly or in aggregate in the NHS, Teachers, Fire or Police schemes that they are in.

The member must provide us with details of the tax charge they face and we will check if this is either singly or in aggregate. Where members have not already had a pension saving statement, they may ask for one. Schemes have three months to provide a statement on request, provided they have all the relevant information.

When completing self-assessment there is a requirement to provide details of the pension scheme tax reference number. If you have a charge against more than one scheme you should provide HMRC with details relating to the amount of Annual Allowance charge allocated against each scheme and the relevant tax reference numbers relating to each charge. You can use the 'additional information' section to do this.

What is the time limit for the elections to be made?

For the tax year 2016/17 the deadline will be 31 July 2018 and subsequent tax years the deadline will be 31 July of the of the following year for both mandatory and voluntary elections.

You must also provide the election before your benefits are taken from the scheme. If benefits have already been authorised for payment, it will not be possible to exercise the Scheme Pays election.

For voluntary elections the member is liable for any interest accrued in respect of scheme pays e.g. for 2016/17 interest would be accrued from 31 January 2018 until the tax is paid to HMRC. SPPA will pay the tax in the next tax return SPPA makes following receipt of the election. These returns are submitted quarterly. SPPA will not pay any interest charges in respect of a voluntary Scheme Pays election.

Please note:

The deadline for the election to be made in the 2016/17 tax year will be 31 July 2018

Can the election be revoked after it has been submitted?

No, the election cannot be revoked once it has been received by SPPA.

Where can the Scheme Pays election form be found?

The Scheme Pays election form can be found in the Taxation section of the website under "Forms". [Scheme Pays Election form](#).

How is the reduction in my benefits calculated?

The scheme will calculate a notional debit which will be deducted from your benefits at the point you retire or transfer from the scheme. This is known as an AA pension debit and, if applicable, an AA lump sum debit.

Factors provided by the scheme actuary are used in accordance with your age, gender, normal pension age and type of retirement. The age used is your age at the implementation date. Since 2015/16 this date is aligned with the end of the tax year (5 April) to which tax charge relates.

If your Scheme Pays election is a combination of mandatory and voluntary elements across one or more schemes the debit will be apportioned appropriately by the administrators since different elements and scheme charges have to be paid separately to HMRC.

For a teacher with mixed service (ie service with both normal pension age [NPA] 60 and 65), the debit will be offset initially against your NPA 65 pension. If the AA charge exceeds the value of the NPA 65 pension, a debit will then be applied against your NPA 60, to cover the excess.

The amount of the AA debit will not affect the Guaranteed Minimum Pension (GMP). The value of the AA pension debit and the AA lump sum debit will be increased in line with pensions increases until you retire or transfer from the scheme.

How are the notional AA pension debits adjusted for early or late retirement?

The debits, increased up to NPA ,are calculated assuming that you will retire on your NPA. However, if you retire before or after NPA, the debits will be adjusted to allow for the different period over which they will be deducted.

Any conversion of annual pension for lump sum will occur after the application of the AA debits.

Will the benefits for my spouse, civil partner or dependants be affected?

In the NHS, Teachers', Police and Firefighters' schemes, benefits in respect of your spouse, civil partner or dependant will not be affected by the Scheme Pays election.

Can more than one debit be applied to my pension benefits if I exceed the AA in subsequent years?

An AA debit will be calculated in respect of each tax year in which you elect for the scheme pays option. This may give rise to multiple scheme pays elections if more than one tax year is affected.

Where can I find further details about Scheme Pays?

Further details about Scheme Pays can be found on HMRCs website www.hmrc.gov.uk.

SPPA cannot give you financial or tax advice and if you need this you should speak to a professional adviser. You can read more about the AA on HMRCs website at:

www.hmrc.gov.uk/pensionsschemes

Questions?

If you have any questions about the information contained in this factsheet, please contact SPPA at
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