

Factsheet - Annual Allowance 'Scheme Pays'

Introduction

If your pension savings exceed the Annual Allowance (AA) limit in a relevant tax year **and** you do not have sufficient unused allowance from the previous three tax years (known as 'carry forward') to offset against the excess, you will have an **AA charge**. If this is the case, you will need to report and pay the charge to HM Revenues & Customs (HMRC). To report the charge to HMRC, you will need to complete a **Self-Assessment tax return**.

Self-Assessment tax return

You must tell HMRC about your pension savings and liability to the AA charge by completing the 'Pension savings tax charges' section of the return. If you are not completing the return online, you will need to complete form SA101. The Local Government Pension Scheme (LGPS) tax reference number is **00329946RE**.

If you have not completed a tax return before, you will need to complete a registration form to inform the HMRC of the change and to obtain a tax return. Further information can be found at:

<https://www.gov.uk/log-in-file-self-assessment-tax-return>

Calculating the AA charge

Further details can be found in HMRC's 'Pensions Tax Manual' at:

www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056110

Lifetime Allowance (LTA)

If your benefits from the Fund have been reduced because of Scheme Pays, it is the reduced value that will then be tested against the LTA.

Paying the charge

There are two payment options available to you.

If the charge is **less than £2,000**, you must pay the charge yourself on your return as a Self-Assessment taxpayer.

If more than £2,000, you also have the option, provided certain conditions are met, to elect for the Scheme to pay the charge on your behalf by 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 **31 January 2023** in relation to this statement. However, if you are paying the charge direct to HMRC online, the deadline is **30 December 2022**.

Regardless of whether you pay the charge yourself or you elect for the Clwyd Pension Fund to pay the charge on your behalf under Scheme Pays, you will need to inform the HMRC of your AA charge on your Self-Assessment tax return; and if electing for scheme pays, confirm that this is your intention.

Scheme Pays

An AA charge can be quite substantial, therefore if the charge is greater than £2,000 and it derives from your pension savings with the Clwyd Pension Fund, you can elect for the Fund to meet **all or some** of the charge on your behalf, in return for a **permanent reduction** to your annual pension.

If you were to elect for the Clwyd Pension Fund to only pay a proportion of the charge, you would then pay the remainder direct to the HMRC. Note therefore that your Scheme Pays election does not have to be for the full amount.

If you think you will be affected and want to consider the Scheme Pays option, please contact the Clwyd Pension Fund as soon as possible, as strict deadlines apply.

Before it can be applied, conditions must be met and you will need to complete an AA Scheme Pays election notice available from your Fund. Once you have made a valid election to apply Scheme Pays, it **cannot** be revoked at a later date.

Survivor Benefits

Any Scheme Pays debit will **not** impact on any Survivor's pension, payable in the event of your death to your spouse, registered civil partner or eligible cohabiting partner (and any eligible children).

Rejection of Scheme Pays Election

The Clwyd Pension Fund would **not** pay the AA charge on your behalf if:

- You do not meet the Scheme Pays conditions; or
- The whole of the AA charge does not relate to your Fund benefits; or
- The Scheme Pays election notice has not been received within the statutory specified deadlines; or
- Your pension benefits are already in payment from the Fund; or
- You are over age 75 and the election was not received before your 75th birthday; or
- You have transferred your benefits from the Fund or have taken a refund of your pension contributions; or
- You do not have enough pension left to pay the AA charge when the permanent reduction is applied to your benefits

Scheme Pays Application Deadline

You cannot make a Scheme Pays election before the end of the tax year in which the AA charge arises (unless you are approaching retirement or plan to transfer out). You must give your notification no later than **31 July** following the January in which the AA charge must be declared on your tax return.

Tax Year	AA Charge Reported	Deadline
2020/2021	31 January 2022	31 July 2022
2021/2022	31 January 2023	31 July 2023

If you retire and become entitled to all of your benefits from the Clwyd Pension Fund, you must inform the Fund well before your retirement date, so that your election is on file before we process your benefits. If you are transferring your benefits from the Fund, your election must be received well before the payment is made. You must also inform the Clwyd Pension Fund of your election before you reach age 75 (especially if you reach age 75 in the tax year to which your liability relates).

Please Note:

The Clwyd Pension Fund **cannot give any financial advice**. You will need to consider the best option for your own individual circumstances. You should ensure that you fully understand the implications of making a Scheme Pays election.

It is recommended that you seek **Independent Financial Advice** from an adviser with knowledge of the LGPS.

The following websites can be used to search for an adviser in your area:

- <https://www.unbiased.co.uk/>
- <https://www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser?source=mas>

This factsheet has been based on our current understanding of the Scheme Pays rules (as at **April 2022**). This leaflet is for information only and does not cover every personal circumstance. The issues involved are complex and the Clwyd Pension Fund will not provide any personal guidance or advice.