Common Questions

1. **What is the Annual Allowance limit?**

The amount that can be contributed to your pension each year, while still receiving tax relief. If your pension savings (from all your pension arrangements) exceed the limit in any one year the excess amount is taxed as income.

The AA limit applies to your total pension savings for all tax registered pension schemes that you pay into. The current AA is £40,000, although this is reduced (tapered) down if your threshold income is greater than £110,000, and your adjusted income is greater than £150,000.

If your total pension savings have increased by more than the AA limit, you can consider whether you have any unused annal allowance from the previous three tax years to offset an annual allowance charge. You may be able to 'carry forward' the unused annual allowance and add it to your annual allowance limit in the current tax year. Pensions in the LGPS grow in line with your pensionable salary, not your pension contributions, so a significant increase in salary can subsequently have a large effect on your pension growth.

2. **How is the Annual Allowance calculated?**

Your pension growth is measured over a 'pension input period' (PIP). From 6 April 2016, PIPs for all pension schemes are aligned with the tax year (6 April to 5 April). Your annual pension growth is calculated by deducting the opening value of your pension benefits, adjusted for inflation, from the closing value of your pension benefits in any tax year. In the LGPS the value of your pension is worked out by multiplying the amount of your annual pension by 16 plus any automatic lump sum you are entitled too. You'll also need to add any additional voluntary contributions (AVCs) you or your employer has paid during the year.

Your personal calculation will be included within the Annual Allowance letter (or Pension Savings Statement) sent to you from Local Pensions Partnership Administration by 6th October.

3. **What if I owe tax?**

This depends on the amount. If the amount is less than £2,000 you must pay the charge direct to HMRC via your self-assessment tax return by 31 January following the year in which your tax charge arose.

If your tax charge is more than £2,000, and providing certain conditions are met, you may be able to elect for your pension fund to pay some or all of your tax charge on your behalf. If you elect for this your Local Government Pension Scheme (LGPS) pension is reduced accordingly - this is called the scheme pays facility. If you have exceeded the standard annual allowance by more than £2,000, this is done through mandatory scheme pays. If you have been affected by the tapered annual allowance, this is done through voluntary scheme pays. You will still need to inform HMRC of the tax charge and that you have requested payment via scheme pays.

4. **What is Scheme Pays?**

- Your pension fund will pay the tax charge on your behalf in exchange for a permanent reduction to your Local Government Pension.
- The reduction that we apply to your pension is determined by a set of prescribed factors. These factors vary depending on your age, gender and how close to retirement you are.
- The reduction (called your 'scheme pays pension debit') will increase each year in line with inflation. When you come to retire, the pension debit will be adjusted to reflect the date your pension comes into payment. If you retire before or after your normal pension age, the pension debit will be reduced or increased accordingly.

There are two types of Scheme Pays: Mandatory and Voluntary.

Mandatory Scheme Pays

Can be used if all three of these apply to you:

- ***your Pension Input Amount within the Local Government Pension Scheme is in excess of £40,000; and***
- ***the tax charge resulting from the excess within the scheme is over £2,000; and***
- ***your Scheme Pays deduction is applied to the benefits within that scheme only.***

Voluntary Scheme Pays

Can be used if:

- ***you don't meet the Mandatory Scheme Pays criteria, but you still wish to pay your tax charge by Scheme Pays.***

Voluntary scheme pays relates to those affected by the reduced (tapered) AA, to find out more on this please read the **Local Government Pension Scheme guide**.

Important Information - Voluntary Scheme Pays

If you decide to use the scheme pays facility on a voluntary basis, it is important that you understand the possible implications of electing to do so. Under voluntary scheme pays, you are liable for the tax charge so this remains with you until the tax charge is paid to HMRC. This means that HMRC's deadline for payment is your normal self-assessment deadline (31 January following the year the tax charge arose). That means, if we pay your tax charge after the self-assessment deadline, you will be liable to pay any late payment penalties and interest that is incurred.

https://www.gov.uk/guidance/who-must-pay-the-pensions-annual-allowance-tax-charge

If I decide to use Scheme Pays, what are the steps involved?

If you would like to use the scheme pays facility, please contact us for a quote advising us how much of your annual allowance charge you want us to pay and the tax year in which the annual allowance charge occurred. We will send you an election form with the quote for you to complete and return should you wish to go ahead with the election.

Once we receive your signed election form, the election is irrevocable which means you cannot change your mind once you return your completed form to us, but you do have up to four years to change the tax charge amount if required.

We will not accept an election for scheme pays if the following circumstances apply:

- You are over age 75 and the election was not received before you reached the age of 75; or
- You have transferred out of the LGPS scheme 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

5. **Does ill-health retirement affect the Annual Allowance?**

If you retire on ill health grounds with a tier 1 or tier 2 pension you may be affected by the AA. This is because the enhancement you get can mean a significant increase in your benefits in your final year in the pension scheme. Some members are protected from the AA rules if they meet HMRC's severe ill health criteria.

Once you have retired you are no longer eligible to use our scheme pay facility on a mandatory basis. Therefore, if you have an AA tax charge payable as a result of the increase to your benefits due to your ill health enhancement and would like to use scheme pays, you need to make sure you elect for this facility before you return your retirement paperwork to us.

6. **Does transferring my pension impact the Annual Allowance?**

If you have transferred pension rights from another scheme into the LGPS, the value of the benefits relating to the transfer does not count towards your pension savings in the LGPS in the year in which the transfer payment is received.

If you are transferring from a scheme which is similar to the Local Government Pension Scheme, we will ignore the effect of any actuarial adjustments for AA purposes but will include the effect of any salary increase and revaluation.

However if you are transferring final salary benefits (that is, from pre 1 April 2014 membership from another LGPS Fund), and have had an increase in pay from your previous employment, the growth in your pension due to the increase in pay will be taken into account in the calculation of your pension savings.