

NHS Pensions - Annual Allowance – Scheme Pays Facility

If you have growth in your pension savings during a tax year that is greater than the standard Annual Allowance and you do not have any unused Annual Allowance to carry forward from the previous three tax years, then you will have an Annual Allowance charge to report and pay to HM Revenue and Customs (HMRC).

Reporting an Annual Allowance charge to HMRC

If you have an Annual Allowance charge you will need to tell HMRC about it. If you normally complete a self assessment tax return then you must tell HMRC about your pension savings and liability to the Annual Allowance charge as part of this return. You will need to complete the 'Additional Information' pages of the tax return to show the amount by which your pension growth (the total pension input amount) exceeds the Annual Allowance.

HMRC have published a help sheet, HS345 'Pensions - tax charges on any excess over the Lifetime Allowance, Annual Allowance and on unauthorised payments', to assist you when completing your tax return.

You can find this help sheet by inserting 'HS345' into the 'Search GOV.UK' box on www.gov.uk.

A search box with the text "Search GOV.UK" and a magnifying glass icon on the right side.

If you do not normally complete a tax return or it has been some time since you last did so you will need to register for one by completing form SA1. It can take up to 20 working days to complete HMRC's registration process at the end of which you will be given a Unique Taxpayer Reference (UTR).

You can register on line by inserting 'SA1' into the 'Search GOV.UK' box.

What to do if you do not know the pension input amount until after the self-assessment filing date?

If you have not received a pension savings statement and you think your NHS pension growth will be higher than the Annual Allowance then you should confirm an estimated excess amount and make a note in the 'Any other information' part of the tax return to

explain that you have used an estimated. You will also need to tick the box to show that they have used estimated figures on your tax return. You can amend your tax return if this is within 12 months of the statutory filing date.

Where the estimate is less than the final figure, you will need to pay any additional tax due along with any interest on the late payment of any additional Annual Allowance charge.

Paying an Annual Allowance charge to HMRC

Ultimately you are responsible for paying your Annual Allowance charge to HMRC. You can either pay the charge directly to HMRC yourself or you may be able to share that responsibility with NHS Pensions.

If you pay the charge yourself, even where you have estimated the amount, then it is payable as part of the normal tax bill by the deadline below.

Paying your tax bill	
Tax year	Deadline
2014/15	31 January 2016
2015/16	31 January 2017
2016/17	31 January 2018
2017/18	31 January 2019
2018/19	31 January 2020
2019/20	31 January 2021

Make sure you pay your Annual Allowance charge to HMRC by the deadline as you may be charged interest if your payment is late.

Making a Scheme Pays election

You may be able to elect for NHS Pensions to pay some or all of your Annual Allowance charge for you, from the 1995/2008 NHS Pension Scheme (1995/2008 Scheme) and/or the 2015 NHS Pension Scheme (2015 Scheme).

We will only pay the charge if we receive a Scheme Pays election within HMRC deadlines and where mandatory conditions are met. These are, that:

1. pension growth in the 1995/2008 Scheme **or** the 2015 Scheme exceeds the standard Annual Allowance, and
2. your total Annual Allowance charge liability is more than £2,000.

If you are a transition member¹ and the combined pension growth from both the 1995/2008 Scheme and the 2015 Scheme exceeds the standard Annual Allowance then please read the factsheet 'Scheme Pays Facility for Transition Members' on our website for more information.

A Scheme Pays Election Notice (SPE2) together with accompanying Scheme Pays election notice guidance notes are available on our website.

SPE3 is available directly from us for members to request Scheme Pays in respect of an Annual Allowance charge in respect of excessive growth in the NHS Money Purchase AVC Scheme.

¹ a member who moved to the 2015 Scheme from the 1995/2008 Scheme on or after 1 April 2015 and has pensionable membership in both NHS Pension Schemes.

Tapered Annual Allowance

The tapered Annual Allowance applying for a tax year does not alter the Scheme Pays mandatory conditions. In particular, it remains a requirement that the total pension input amount in the 1995/2008 Scheme and/or the 2015 Scheme must be higher than the standard Annual Allowance before any taper is applied.

Currently this means that the pension input amount has to exceed £40,000.

If you are subject to a tapered Annual Allowance, which is lower than the standard Annual Allowance, then any available unused Annual Allowance you have from the previous three tax years can be carried forward and added to your reduced Annual Allowance and not the standard Annual Allowance.

There is no requirement on schemes to pay the Annual Allowance charge from the tapered Annual Allowance and the NHS Pension Scheme will not accept a Scheme Pays election in respect of the tapered Annual Allowance.

Deadline for a Scheme Pays election

If you meet the mandatory conditions and you would like us to pay some or all of your Annual Allowance charge then we must receive your completed Scheme Pays election notice on or before 31 July, following the January in which the Annual Allowance charge must be declared on your tax return.

Making a Scheme Pays election	
Tax year	Deadline
2011/12	31 December 2013
2012/13	31 July 2014
2013/14	31 July 2015
2014/15	31 July 2016
2015/16	31 July 2017
2016/17	31 July 2018
2017/18	31 July 2019
2018/19	31 July 2020
2019/20	31 July 2021

NHS Pensions **must** receive your election by the above dates. It is not enough just to send your election by the deadline.

You must send an election earlier if one of the following events occurs **before the deadline**:

- you expect to retire - the election must be completed and sent to us before your NHS benefits crystallise; or
- you reach age 75 - the election must be completed and received by us before your 75th birthday.

Rejecting a Scheme Pays election

We do not have to pay an Annual Allowance charge if:

- we do not receive the election by the deadline, or
- the election has not been made on the correct election notice, or
- the growth in NHS benefits either in the 1995/2008 Scheme and/or the 2015 Scheme does not exceed the standard Annual Allowance, or
- the election includes an amount in respect of the tapered Annual Allowance, or
- the Annual Allowance charge is less than £2,000, or
- you are already in receipt of your full pension entitlement from the NHS Pension Scheme, or
- you are over age 75, or

- you have transferred pension rights from the NHS Pension Scheme to another pension scheme - this does not include moves from the 1995/2008 Scheme to the 2015 Scheme on or after 1 April 2015, or
- you have taken a refund of contributions.

We can ask HMRC for a discharge from paying the Annual Allowance charge if you:

- have insufficient scheme benefits from which to recover the Annual Allowance charge. This may be an issue if you have a large pension share debit on your NHS benefits because of divorce or dissolution of a civil partnership, or
- die in between us receiving the election notice and paying the Annual Allowance charge to HMRC.

If a discharge is granted by HMRC you or your estate will be liable for paying the charge.

Changing the amount of Scheme Pays

Once we receive and accept your Scheme Pays election you will not be able to change your mind and withdraw the election, unless the original election was completed in error.

This may be because:

- growth in your NHS benefits did not actually exceed the standard Annual Allowance, or
- your Annual Allowance charge was less than £2,000.

This could occur if you estimated the amount of your Annual Allowance charge in order to meet the Scheme Pays deadline.

While the election cannot be revoked it may be amended due to the amount of Annual Allowance charge changing.

In order to change your original election we have to receive a revised election form no later than the 31 July following the end of a period of four years from the end of the tax year to which the Annual Allowance charge relates.

Amending a Scheme Pays election	
Tax year	Deadline
2011/12	31 July 2016
2012/13	31 July 2017

2013/14	31 July 2018
2014/15	31 July 2019
2015/16	31 July 2020
2016/17	31 July 2021
2017/18	31 July 2022
2018/19	31 July 2023
2019/20	31 July 2024

Where there is a decrease in the Annual Allowance charge NHS Pensions will reclaim any overpaid tax from HMRC. If you have retired your NHS pension benefits will be reassessed.

Estimating the amount of Annual Allowance charge

If you estimate the amount of Annual Allowance charge on the Scheme Pays election notice it is important that you complete a further Scheme Pays election to amend the estimated amount once you know the final Annual Allowance charge.

Failure to do so will result in an incorrect reduction to your NHS benefits when they are paid, either on your retirement or if you transfer out.

The deadline for this is the same as the deadline for changing an election.

More than one pension scheme

If you are also a member of another pension scheme, outside the NHS Pension Schemes, you may be able to make Scheme Pays elections to each pension scheme.

The amount of Annual Allowance charge you may ask each pension scheme to pay is limited to the amount of pension growth in excess of the standard Annual Allowance in that scheme, unless the pension scheme operates voluntary scheme pays. You cannot ask NHS Pensions to pay your entire Annual Allowance charge where part of that liability relates to another pension scheme, outside of the 1995/2008 Scheme and 2015 Scheme.

If you are a transition member we will consider accepting a scheme pays election on a voluntary basis provided the combined NHS pension growth across both the 1995/2008 Scheme **and** the 2015 Scheme:

1. exceeds the standard Annual Allowance, and
2. your total Annual Allowance charge liability, for the relevant tax year, is more than £2,000, and
3. your election form is received by the scheme pays deadline.

More information about how to split an Annual Allowance charge between the 1995/2008 Scheme and the 2015 Scheme and voluntary Scheme Pays can be found in factsheet 'Scheme Pays Facility for Transition Members' on our website.

Recovering the Annual Allowance charge

We will recover the cost of paying your Annual Allowance charge by permanently reducing your NHS benefits when they are paid to you. The actual reduction is calculated using factors provided by the Scheme Actuary and can be viewed in the factsheet 'Annual Allowance – Scheme Pays Recovery Factors' on our website.

We record the amount of Annual Allowance charge paid by Scheme Pays as a 'notional negative defined contribution (DC) account' on your pension record. In basic terms a negative DC account is similar to NHS Pensions 'loaning' you money now to pay your tax bill which you have to pay back with interest at a future date, when you either retire or transfer out.

The Scheme Actuary confirms interest must be added to the amount of Annual Allowance charge paid from the 1995/2008 Scheme and the 2015 Scheme. The interest applied each year is based on the previous September's Consumer Price Index (CPI) figure plus the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate. The SCAPE discount rate changed from 3% to 2.8% on 16 March 2016.

NHS Pensions reserves the right to change the amount of interest charged following guidance received from the Scheme Actuary.

Interest is applied from 1 January following receipt of your scheme pays election notice.

Tax year	Scheme Pays deadline	Interest applied from
2011/12	31 December 2013	1 January 2014
2012/13	31 July 2014	1 January 2015
2013/14	31 July 2015	1 January 2016
2014/15	31 July 2016	1 January 2017
2015/16	31 July 2017	1 January 2018
2016/17	31 July 2018	1 January 2019
2017/18	31 July 2019	1 January 2020
2018/19	31 July 2020	1 January 2021
2019/20	31 July 2021	1 January 2022

At your retirement the total negative DC balance owing, including all relevant interest will be converted into an amount to be permanently deducted from your NHS benefits.

- If you are a 1995 Section member - your pension and lump sum will be permanently reduced.
- If you are a 2008 Section member - your pension will be permanently reduced. This remains the same even if you chose to move from the 1995 Section to the 2008 Section under Choice.
- If you are a 2015 Scheme member - your pension will be permanently reduced.
- If you are a transition member – as above.

In the event of your death dependant's benefits will be based on your NHS benefits before any recovery for Scheme Pays. If you were to die before retirement then the total negative DC balance owing will be written off.

If you leave and transfer your NHS pension rights to another registered pension scheme, the transfer value is reduced to recover the total negative DC balance owing.

Please ensure that you fully understand the implications of making a Scheme Pays election on your future NHS benefits before completing the election notice.

You should read the factsheet 'Annual Allowance – Estimating the Cost of Scheme Pays' which can be found on our website at: www.nhsbsa.nhs.uk/nhs-pensions

Scheme Pays and the Lifetime Allowance

When your NHS pension benefits are reduced because of Scheme Pays it is the capital value of the reduced NHS benefits that are tested against the Lifetime Allowance at retirement.

If you are transferring pension benefits to an overseas pension scheme it is the reduced transfer value that is tested against the Lifetime Allowance.

More information about the Lifetime Allowance is on our website.

NHS Money Purchase AVC Scheme

The NHS Money Purchase AVC Scheme (MPAVC Scheme) is registered separately with HMRC. If you have paid contributions into this scheme which exceed the standard Annual Allowance you may have an Annual Allowance charge. We will reject any request for scheme pays for either the 1995/2008 Scheme or 2015 Scheme to pay any Annual Allowance charge in respect of the MPAVC Scheme.

If you want to make an election for the MPAVC Scheme to pay your charge please contact the Annual Allowance Team Manager for the Scheme Pays Election Notice (NHS Money Purchase AVC Scheme) (form SPE3). We will recover the charge by permanently reducing your fund value from the date your MPAVC Scheme provider releases the money to NHS Pensions. This money will then be paid directly to HMRC.

If you have multiple policies with an MPAVC Scheme provider or policies with more than one provider it will be up to you to tell us from which provider and policy you want the Annual Allowance charge to be recovered.

Scheme Pays is not available once you have used your fund value to purchase an annuity or you have transferred it out to another registered pension scheme.

Reporting the Scheme Pays

Where an Annual Allowance charge is paid out of the 1995/2008 Scheme, the 2015 Scheme or the AVC Scheme it must be reported to HMRC as part of our quarterly Accounting for Tax (AFT) return.

We will reclaim any overpaid Annual Allowance charge from HMRC if a second election is received confirming a charge is lower. If the charge is higher we may be able to pay the additional charge to HMRC on your behalf.

Members must still tell HMRC about their Annual Allowance charge on their tax return and confirm they have elected for Scheme Pays.

Further information

More information about the Annual Allowance can be found in HMRC's Pension Tax Manual available on their website.