

North Wales Fire and Rescue Authority

Firefighters' Pension Schemes

Scheme Pays Policy and Procedures

1.0 Introduction

Scheme Pays is a mechanism that permits an individual to ask the Scheme Manager of the pension scheme that they are a member of to pay any tax charge due in relation to an excess of pension savings above Her Majesty's Revenues and Customs (HMRC) standard Annual Allowance limit. In return, there is a reduction in pension benefits when the individual's pension comes into payment.

There are two types of Scheme Pays, Mandatory and Voluntary and each has its own qualifying conditions and timescales that must be satisfied

You will need to advise HMRC if you plan to use Scheme Pays. The process for applying for Scheme Pays is detailed below.

2.0 Annual Allowance

2.1 Each Taxpayer has a standard Annual Allowance set by Her Majesty's Revenues and Customs (HMRC), which may be allocated to his or her pensions savings account during the Scheme's 'pension input period' without incurring a tax liability.

2.2 A tax liability is usually incurred if the individual's annual pension savings growth exceeds the Annual Allowance, which is currently set at £40,000 per year.

2.3 Changes to the Annual Allowance, known as tapering, resulted in the Annual Allowance for high earning individuals reducing to £10,000 from April 2016.

3.0 Mandatory Scheme Pays

3.1 An individual who exceeds his or her Annual Allowance and incurs a tax charge can pay the tax from their own personal finances. However, the Finance Act 2004 provides that a pension scheme must provide a 'Scheme Pays' facility where certain qualifying conditions are met. A scheme pays facility works by having the pension fund pay the members' tax charge initially, which is then repaid by the member through a reduction in their pension benefits once they come into payment.

3.2 The qualifying criteria for Mandatory Scheme Pays are:

- the HMRC Annual Allowance limit (currently £40,000) has been exceeded in the pension scheme that the scheme pays election is made
- the Annual Allowance tax charge exceeds £2000
- the relevant time limits for making an election have been met

- 3.3 The Fire Authority must agree to a Mandatory Scheme Pays election where the qualifying conditions are met and Mandatory Scheme Pays has been used in the Firefighters' Pension Schemes since 2012.
- 3.4 Due to HMRC introducing 'tapering' of the £40,000 Annual Allowance for the 2016/17 tax year, there are now circumstances where a firefighter does not have the right to make a Mandatory Scheme Pays election for the tax relating to the difference between the 'tapered' (a minimum of £10,000) Annual Allowance and the standard £40,000 Annual Allowance. In such circumstances, the additional tax liability could be covered by a Voluntary Scheme Pays arrangement, which is common practice in other pension schemes.
- 3.5 Furthermore, scheme members who built up pension savings in more than one scheme (e.g. members of the 1992 Scheme or 2007 Scheme who transition to the 2015 Scheme), will have savings grow in both schemes until retirement. By virtue of accruing pensions growth across two rather than in one scheme, there is an increased likelihood that although a scheme member's total pension savings growth across both schemes might exceed £40,000 or a 'tapered' Annual Allowance, the savings growth in any one of the schemes may fall short of HMRC Annual Allowance limits. In view of this, Mandatory Scheme Pays will not be available to the individual to pay the tax charge.
- 3.6 The timescales for Mandatory Scheme Pays are set out below:

Action	Deadline Date¹
Tax Year ends	5 April 2018
Employer provides information to Scheme Administrator	30 April 2018
Scheme Administrator provides Pension Savings Statement to member	6 October 2018
Member submits Self-Assessment Tax return stating how Annual Allowance tax will be paid to HMRC	31 January 2019
Member Mandatory Scheme Pays election deadline (or by retirement if earlier). Otherwise tax due to HMRC by previous 31 January 2018.	31 July 2019
Mandatory Scheme Pays – Scheme Administrator submits Event Report to HMRC	31 January 2020
Scheme Administrator pays tax to HMRC	14 February 2020

¹ For illustrative purposes

4.0 Voluntary Scheme Pays

4.1 Voluntary Scheme Pays works in the same way as Mandatory Scheme Pays whereby the tax liability is initially paid by the pension scheme and the cost recovered by a reduction to the individual's annual pension when it comes into payment.

4.2 The automatic qualifying criteria for Voluntary Scheme Pays are:

- members are subject to a 'tapering' Annual Allowance and the tax charge does not meet the criteria for Mandatory Scheme Pays. ***For this option it is recommended that the member should make an initial contribution of £2,000 from their own finances towards the resultant Annual Allowance tax charge.***
- transitional members with a pension savings growth in excess of the Annual Allowance over two pension schemes.

4.3 In addition to the automatic qualifying criteria, there may be other qualifying criteria for Voluntary Scheme Pays if an individual does not meet the criteria for Mandatory Scheme Pays. In such circumstances, each application will be considered on a case by case basis within the limit of the Fire Authority's power of general competence.

4.4 The timescales for Voluntary Scheme Pays are set out below:

Action	Deadline Date ²
Tax Year ends	5 April 2018
Employer provides information to Scheme Administrator	30 April 2018
Scheme Administrator provides Pension Savings Statement to member	6 October 2018
Member requests Scheme Pays quote	10 November 2018
Scheme Administrator issues quote	30 November 2018
Member returns forms accepting quote	15 December 2018
Scheme Administrator process deductions	29 December 2018
Member submits Self-Assessment Tax return to HMRC stating will pay Annual Allowance via Scheme Pays	31 January 2019
Scheme Administrator pays Voluntary Scheme Tax to HMRC	31 January 2019

² For illustrative purposes