

SCHEME PAYS

AUGUST 2019

You have a limit on how much you can earn or save in a pension each tax year before paying tax. This is called your Annual Allowance.

If you go over this, you may have to pay a tax charge. You can ask us to take the charge from your pension and pay this for you. This is called 'Scheme Pays'.

 THE CHURCH
OF ENGLAND

PENSIONS BOARD

Scheme Pays

What is Scheme Pays?

Currently you can pay or save up to £40,000 a year (or 100% of your taxable earnings if this is less than £40,000) in a pension each tax year and get tax relief. This is your Annual Allowance.

If you save or earn more than £40,000 over the tax year you might have to pay tax on the excess.

If you go over your Allowance by more than £2,000 you can ask us to pay all or part of this for you - this is called '**mandatory Scheme Pays**'.

If you go over it by less than £2,000, we might pay this for you - this is called '**voluntary Scheme Pays**'.

The way we pay your tax charge is the same for both, but there are different deadlines you need to let us know by.

How will I know if I go over my Annual Allowance?

If you go over your Allowance with us, we will send you a 'Pension Saving Statement'. This will show how much you have gone over your Allowance by, and what you can do next.

If you have not gone over your Allowance with us, we will not automatically tell you how much Allowance you have used, but you can ask us, and we will tell you the amount.

It is your responsibility to check how much Annual Allowance you have used in all your pensions and arrange to pay any tax charge.

Will I have to pay a tax charge?

Not always. You can usually carry forward any Allowance you have not used from the previous three tax years. This might reduce your charge or even get rid of it completely.

Ask us how much Allowance you have used in the last three years and how much you have left to carry over.

You cannot do this if you have triggered the Money Purchase Annual Allowance – read our leaflet on this to find out more.

Mandatory Scheme Pays

If you go over your Annual Allowance by more than £2,000 you can ask us to pay all or part of your tax charge for you.

Before paying this, we need to check you meet these conditions:

- you earned or saved more than the £40,000 in one of our schemes,
- your tax charge is more than £2,000 and is for a previous tax year,
- you ask us to pay this within the time limit, and,
- we have not started paying your pension.

If you meet these conditions, we can pay the tax charge for you.

If you would like to go ahead, please ask us for a **'Mandatory Scheme Pays Notice'**.

Send this back to us by **31 July** after the 31 January self-assessment tax deadline. So, if your tax charge is for 2019/20 you have until 31 July 2021 to ask us. We will pay your tax charge to HM Revenue & Customs.

Voluntary Scheme Pays

If you go over your Annual Allowance by less than £2,000, or if you do not meet all the conditions for Mandatory Scheme Pays, we can still pay all or part of this for you. It is up to us whether we agree to pay this.

If your tax charge is quite small and you only have a defined benefit pension, the admin costs may be more than your tax charge, so we may not agree to pay it. If we agree to pay your charge, ask us for a **'Voluntary Scheme Pays Notice'**.

Send this back to us by **31 December** after the tax year your charge relates to. So, if your tax charge is for 2019/20 you have until 31 December 2020 to ask us. We will pay your tax charge to HM Revenue & Customs.

How will we reduce your pension?

If you have a defined contribution pot, we will take your charge from this.

If you do not have a defined contribution pot, we'll reduce your defined benefit pension.

Ask us which type of pension you have, and we can let you know how we will reduce it.

How will my defined contribution pot reduce?

Here is an example for Josie:

- Josie has a defined contribution pot of £100,000.
- Her Annual Allowance charge for the tax year is £3,000.
- Josie will pay £1,000 herself.
- She asks us to pay £2,000. We will take this from her defined contribution pot and pay this to HM Revenue & Customs.
- This leaves £98,000 in her pot

How will my defined benefit pension reduce?

Here is an example for Jonathan:

- Jonathan has a defined benefit pension of £6,000 p.a.
- His Annual Allowance charge for the tax year is £4,000. He asks us to pay this for him.
- We will add a "debit" to his pension and take this from his pension when he retires.
- In this case the debit is £250, leaving Jonathan with a pension of £5,750 p.a.

Can I change my mind?

You cannot withdraw your request, but you can change the amount you want us to pay by completing a new form before the deadline. You cannot change the amount to zero.

If I only have a defined benefit pension, will this affect my dependents?

Yes. The pension we will pay your husband, wife, civil partner or children when you die is a percentage of your pension, so if we reduce your defined benefit pension this will reduce any dependent's pension as well.

What if I have triggered the Money Purchase Annual Allowance (MPAA)?

Read our MPAA leaflet to find out whether you trigger this. If you exceed your MPAA and you would like us to pay your tax charge for you, you can use Voluntary Scheme Pays.

What if I am a "high earner"?

If your taxable earnings from all sources are above £110,000 your Annual Allowance might be less than £40,000. Read our Tapered Annual Allowance leaflet to find out more.

What happens if I go over my Annual Allowance again?

You can go through Scheme Pays again. There is no limit on how many times you can ask us to pay a tax charge for you but be careful how much your pension is reducing.

What happens if I go over my Annual Allowance with another pension scheme?

You might have more than one pension and save less than £40,000 in each, but between all your pensions you might go over your Allowance.

For example, if you have two pensions and save £22,000 in both your total Allowance used is £44,000, so £4,000 over your annual tax-free limit.

If this happens, let us know how much Allowance you have used with your other pensions and we will add this to the Allowance you have used with us and we can pay the total charge for you.

Before doing this, think very carefully about which type of pension you want the charge to come out of. It is highly likely you will be better off paying your charge from a defined contribution scheme.

This reflects our understanding of current legislation and practice. You should talk to a financial or legal adviser if you need specific guidance or advice