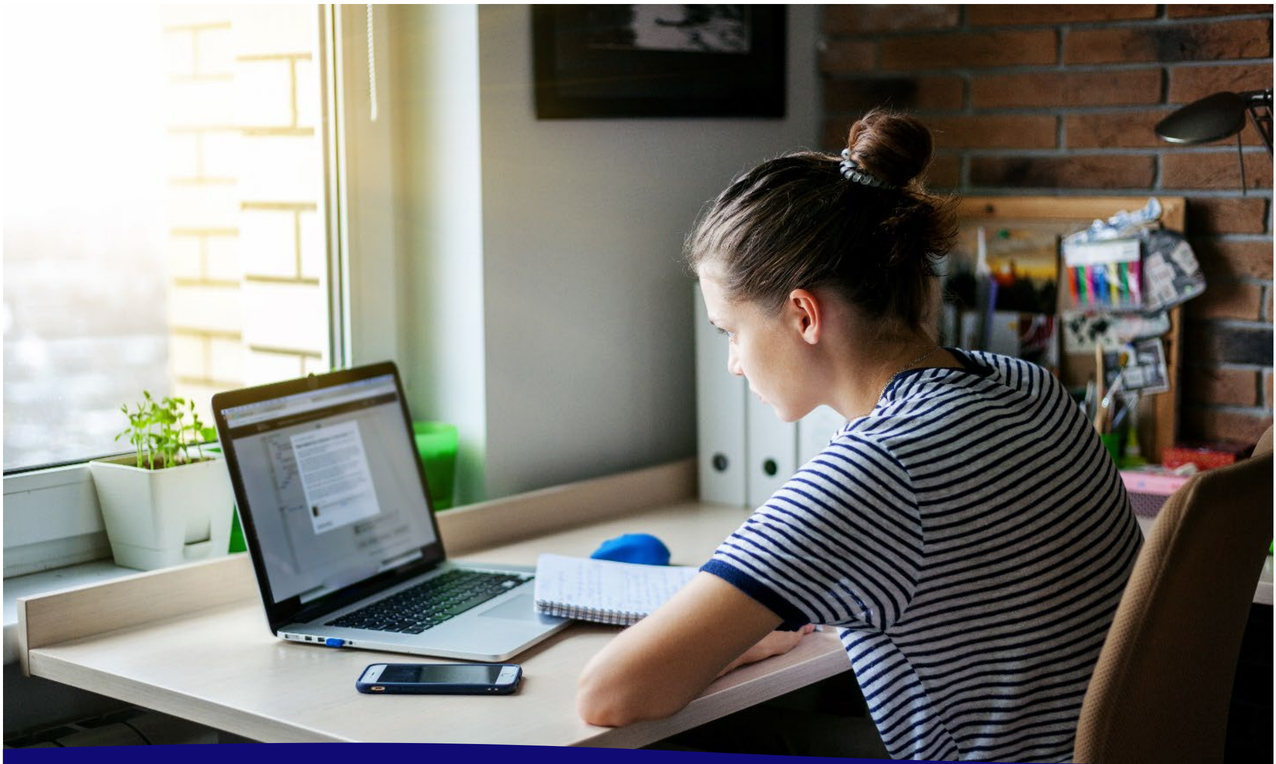

THE CHURCH OF ENGLAND
PENSIONS BOARD

Scheme Pays

September 2024

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

If you go over this, you usually have to pay a tax charge. In certain situations, you can ask us to pay the tax charge from your pension. This is called 'Scheme Pays'.

What is the Annual Allowance cap?
Currently most people can save or earn up to £60,000 across all their pension schemes each tax year (or 100% of your taxable earnings if this is less than £60,000) and get tax relief.

This limit is the standard Annual Allowance. For some people, that limit may be lower (e.g. if they are a high earner or if they have already started accessing their pension). The cap also applies to anything others pay into a pension scheme on your behalf.

Contact us

pensions@churchofengland.org

020 7898 1802

PO Box 2026, Pershore, WR10 9BW

If you save or earn more than your Annual Allowance across all your pension schemes in one tax year, you might have to pay a tax charge on the excess.

If your earnings or savings in one of our schemes exceed £60,000 and your tax charge is more than £2,000, you can ask us to pay all or part of that tax charge for you. This is called 'mandatory scheme pays'.

If your Annual Allowance tax charge is less than £2,000 we might still pay this for you. This is called 'voluntary scheme pays'.

The way we pay your Annual Allowance tax charge is the same for both, but there are different deadlines for asking us to do this.

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

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

If you have not gone over your Annual Allowance with us, we will not automatically tell you how much Annual Allowance you have used. If you have more than one pension scheme, you could go over your Annual Allowance without knowing. Just ask us how much Annual Allowance you have used with us, and we can let you know.

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

Will I have to pay a tax charge?

Not always. You can usually carry forward any Annual Allowance you have not used in the last three years. This can reduce or even get rid of the tax charge entirely.

Key takeaways

Here are the key points to remember:

- **You can usually earn or save up to £60,000 across all your pension schemes, each tax year, and get tax relief**
- **If you earn more than £260,000 a year, your Annual Allowance will be less than £60,000**
- **If you take certain pensions flexibly, you will trigger the Money Purchase Annual Allowance (MPAA) and how much you can earn or save each tax year will change**
- **If you go over your Annual Allowance, you usually have to pay tax on the excess**
- **You can usually use unused Annual Allowance from previous tax years to cover or reduce any tax bill**
- **It is your responsibility to check how much Annual Allowance you have used**
- **You usually need to pay any Annual Allowance tax charge yourself, by completing a self-assessment tax form**

You can ask us how much Annual Allowance you have used with us, in the last three years. This can help you work out how much you have left to carry forward.

You can't carry forward any unused allowance if you have triggered the Money Purchase Annual Allowance.

Mandatory Scheme Pays

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

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

- you earned or saved more than the £60,000 in one of our schemes,
- your tax charge is more than £2,000 and is for a previous tax year,
- you have asked us to pay this tax charge by the relevant deadline (detailed below),
- you have not yet reached age 75, 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 the 'Annual Allowance Scheme Pays Notice' form and tick the box to confirm that you are applying for Mandatory Scheme Pays. Send this form back to us by **31 July** immediately after the tax year to which the tax charge relates.

So, if your tax charge is for the 2023/24 tax year, you have until 31 July 2025 to return the form and to ask us to pay. We will then pay your Annual Allowance tax charge (or the relevant part of it) to HM Revenue & Customs.

Voluntary Scheme Pays

If you do not meet all the conditions for Mandatory Scheme Pays, we may still pay all or part of the Annual Allowance tax charge for you. It is up to us whether we agree to pay this.

For example, if your tax charge is quite small and you only have a defined benefit pension, the administrative costs of reducing your pension to pay the tax charge may be more than your tax charge, so we may not agree to pay it.

If you want to apply for Voluntary Scheme Pays, please ask us for the 'Annual Allowance Scheme Pays Notice' form and tick the box to confirm that you are applying for Voluntary Scheme Pays.

Voluntary Scheme Pays must be settled with HMRC by **31 January** after the tax year your tax charge relates to. So, if your tax charge is for the 2023/24 tax year, you must pay your charge by 31 January 2025. If we agree you can use Voluntary Scheme Pays, we will pay your Annual Allowance tax charge (or the relevant part of it) to HM Revenue & Customs in the next quarterly scheme tax return. This means that we need your 'Scheme Pays Notice' by 30 September 2024 to pay the tax charge on time.

How will my pension reduce?

If you have a defined contribution pension pot, we will take your tax charge from this. If you do not have a defined contribution pension pot, we'll reduce your defined benefit pension (except that we cannot reduce a guaranteed minimum pension, if you have one).

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

Defined contribution pensions

Here is an example for Josie:

- Josie has a defined contribution pot of £100,000.
- Her Annual Allowance tax 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 pension pot and pay this to HM Revenue & Customs.
- This leaves £98,000 in her pension pot.

Defined benefit pensions

Here is an example for Jonathan:

- Jonathan has a defined benefit pension of £6,000 per year.
- His Annual Allowance tax 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 per year.

If you have a defined benefit pension and we add a debit to your pension, this debit increases each year with inflation. So, the difference this debit makes to your pension will change over time. It could go up by more than your pension.

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 relevant deadline (31 July or 30 September and before I start taking my benefits). For example, if your tax liability is more or less than you first thought. However, you cannot change the amount we pay to zero.

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

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 dependant's pension as well.

What is a Tapered Annual Allowance (TAA)?

From 6 April 2024, if you earn over £260,000 in any tax year, your annual allowance will be reduced below £60,000 to a minimum of £10,000. The amount of the reduction will depend on how much your annual income exceeds £260,000. This reduced amount is your TAA.

What is the Money Purchase Annual Allowance (MPAA)?

If you start to access a defined contribution pension pot by taking flexible benefits and then you begin making further contributions, you will have a reduced annual allowance of £10,000 towards your defined contribution benefits. This reduced amount is your MPAA.

What if I am subject to the MPAA or TAA?

The impact of the MPAA or TAA is ignored for Scheme Pays:

- Before you can apply for Mandatory Scheme Pays, the total amount you earn or save in a pension scheme still needs to exceed £60,000, even if a TAA or MPAA means that a lower amount would still trigger an Annual Allowance tax charge for you.
- If the total amount you earn or save in a pension scheme is less than £60,000 but you have to pay an Annual Allowance tax charge because you have triggered MPAA or you are subject to TAA and you would like us to pay your tax charge for you, you can use Voluntary Scheme Pays.

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 to watch 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 scheme and earn or save less than £60,000 in each, but between all your pension schemes you might go over your Annual Allowance.

For example, if you have two pension schemes and save £32,000 in each, your total Annual Allowance used is £64,000, so £4,000 over your annual tax-free limit.

If this happens, let us know how much Annual Allowance you have used with your other pension schemes and we will add this to the Annual 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 tax charge to come out of. It is highly likely you will be better off paying your tax charge from a defined contribution scheme.

This leaflet reflects our understanding of current legislation and practice. You should always talk to a financial or legal adviser if you need specific guidance or advice. The option to use Scheme Pays will be subject to any overriding laws.