

Essex Pension Fund Strategy Board	EPB/20/17
date: 13 September 2017	

Fund Discretions: Scheme Pays

Report by Matt Mott Communications Manager, Essex Pension Fund
Enquiries to Matt Mott 03330 138491

1. Purpose of the Report

- 1.1 To provide the Board with an understanding of Scheme Pays and Voluntary Scheme Pays following a tax charge. The tax charge would apply to an active scheme member exceeding HMRC limits known as Annual Allowance (AA) & Tapered Annual Allowance (TAA).

2. Recommendations

- 2.1 That the Board exercise their discretion for a member to elect for Voluntary Scheme Pays if they have a tax charge of more than £2,000.

3. Background

- 3.1 Each year the LGPS benefits of an active member will increase. This growth is known as Annual Allowance (AA) and has a limit set by HMRC of £40,000 per year.
- 3.2 If the growth exceeds the £40,000 AA limit in any tax year the scheme member may be liable to a tax charge on the amount above the AA limit.
- 3.3 If the tax charge is £2000 or more the scheme member may elect for the Fund to make payment to HMRC on their behalf. In doing so, the Fund will debit the scheme members benefits by a value equal to the tax charge.
- 3.4 From 6 April 2016 HMRC introduced a Tapered Annual Allowance (TAA). TAA may restrict growth of the pension benefits to a minimum of £10,000 before there is a further liability to taxation. However, the TAA may only affect scheme members whose pensionable pay exceeds £150,000 per year.

4. Current Situation

- 4.1 Only scheme members who exceed the £40,000 AA limit and have a tax charge of more than £2000 can elect under scheme regulations for “Scheme Pays”.
- 4.2 The TAA was introduced by HMRC after the effective date of LGPS regulations, 1 April 2014, and means scheme members who have exceeded the £10,000 TAA limit and have a tax charge cannot elect for “Scheme Pays”.
- 4.3 The Local Government Association (LGA) have confirmed in bulletin 154 – February 2017 (<http://lgpslibrary.org/assets/bulletins/2017/154.pdf>) that the Department for Communities and Local Government (DCLG) have agreed Administering Authorities have discretionary power to allow those affected by TAA to elect for “Voluntary Scheme Pays” if they have a charge exceeding £2,000.
- 4.4 It is a regulatory requirement placed upon the Fund to send a Savings Statement to all Scheme members who exceed AA or TAA.
- 4.5 This year the Saving Statement must be sent by 5 October 17 and the scheme member or the Fund must on the scheme members’ behalf make payment by 14 February 2019 for an AA charge. For a TAA tax charge the date for payment must be by 31 January 2018. It is because of this formal deadline that the paper is presented to the PSB in September 2017.

4.6 Statutory Dates

Dates	Action	Responsibility
6 April 16 to 5 April 17	LGPS growth	Scheme Member
5 October 2017	Saving Statement	The Fund
31 December 2017	Notify Fund of Scheme Pays Election TAA	Scheme Member
31 January 2018	Self-Assessment Tax Return	Scheme Member
31 January 2018	Payment to HMRC of TAA tax charge	The Fund
31 July 2018	Notify Fund of Scheme Pays Election AA	Scheme Member
14 February 2019	Payment of AA tax charge	The Fund

5. Administration

- 5.1 Other LGPS Funds, including the within the South Eastern Counties Superannuation Officer Group (SECSOG) are understood to be exercising their discretion in this area, allowing affected scheme members to elect for Scheme Pays.

6. Recommendation

- 6.1 That the PSB exercise their discretion on this matter and agree that scheme members exceeding their TAA by more than £2,000, but have not exceeded the standard £40,000 AA limit, are permitted to elect for Scheme Pays.

7. Risk implications

- 7.1 The Fund's risk register includes the following:

Objective at Risk	Risk Ref	Description of Risk of not Achieving the Objectives	Possible Actions	Residual Impact	Residual Probability	Residual Risk Score
Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A12	Failure to deliver the LGPS properly results in significant numbers of complaints and/or IDRP's	Checking of calculations; ongoing engagement with employers and scheme members along with provision of guides etc; appropriate application of Fund discretions.	1	1	1

8. Link to Essex Pension Fund Objectives

- Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need
- Deliver information in a way that suits all types of stakeholder
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise