Norfolk Pension Fund

LOCAL GOVERNMENT PENSION SCHEME

Annual Allowance and Scheme Pays Election

These guidance notes are to assist you when considering whether to make a Scheme Pays Election for the Norfolk Pension Fund to pay some or all of your Annual Allowance charge where your pension growth exceeds the Annual Allowance in any year.

Further Annual Allowance guidance and videos are available at www.lgpsmember.org.

What is Annual Allowance?

HM Revenue and Customs (HMRC) impose two controls on the amount of pension savings you can make without having to pay extra tax. These controls are known as the Annual Allowance and Lifetime Allowance.

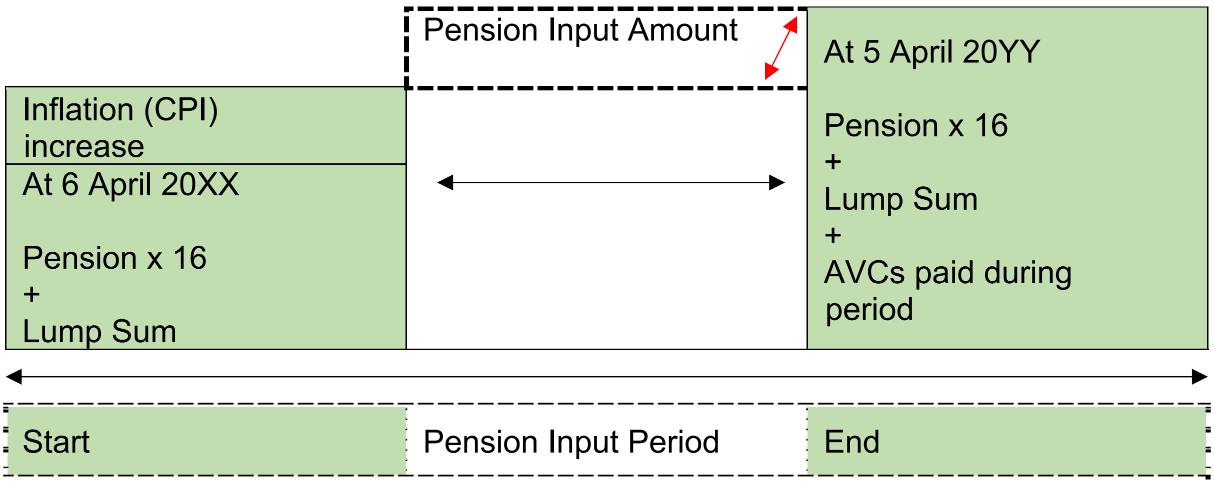
The Annual Allowance is the amount by which the value of your pension savings may increase in any one year without incurring a tax charge. All your pension savings in the Fund, as well as any AVCs or contributions to personal pensions or stakeholder arrangements you are making, are added together each year to determine your Pension Input Amount (PIA).

If the value of your pension savings in any one year (including pension savings outside of the LGPS) exceed the annual allowance, and you have no unused carry forward from the previous 3 years, the excess will be taxed as income at your marginal income tax rate.

How is Pension Input Amount Calculated?

The increase in the value of your pension savings in the LGPS in a year is calculated by working out the value of your benefits immediately before the start of the 'pension input period' (PIP), increasing the value by inflation and then comparing it with the value of your benefits at the end of the PIP.

If the value of pension benefits at the end of the PIP, less the value of your pension benefits immediately before the start of the PIP (adjusted for inflation), is more than the Annual Allowance then you may be liable to pay a tax charge.



Why have I exceeded the Annual Allowance limit?

Most people will not be affected by the Annual Allowance tax charge because the value of their pension savings will not increase in a year by more than £40,000, or, if it does, they are likely to have unused allowance from previous years.

If you have exceeded the Annual Allowance limit the most common reasons can include one or more of:

- you have final salary membership in the Norfolk Pension Fund, and you receive a significant pay increase in the tax year
- you pay a high level of additional contributions in the tax year
- you are a higher earner
- you transfer pension rights into the Norfolk Pension Fund from a previous public sector pension scheme in the tax year under the preferential club transfer rules and your salary (full time equivalent) on joining the Norfolk Pension Fund is significantly higher than the salary you earned when you left the previous scheme
- you combine a previous LGPS pension benefit built up in the final salary section of the LGPS with your current Norfolk Pension Fund account in the tax year and your salary (full time equivalent) has increased significantly since the earlier employment.
- you have accessed flexible benefits on or after 6 April 2015.

If the growth in your Norfolk Pension Fund benefits exceeds the standard Annual Allowance, we will send you a Pensions Savings Statement by 6 October following the end of the relevant tax year.

If you have savings in other pension schemes you need to add the growth in all schemes to calculate your total pension growth.

HMRC have published an 'Enhance Pension Savings Annual Allowance Calculator' to aid you in calculating your unused Annual Allowance and establishing whether you have any pension growth exceeding the Annual Allowance. This is located on HMRC's website at http://www.hmrc.gov.uk/tools/pension-allowance/index.htm

Carry Forward

You would be subject to a tax charge if the value of your total pension savings for a year increased by more than your annual allowance. However, you can carry forward unused allowance from the previous three years. This means even if the value of your pension savings increased by more than your annual allowance in a year you may not be liable for a tax charge.

To carry forward unused allowance from an earlier year you must have been a member of a tax registered pension scheme in that year.

A video explaining Annual Allowance carry forward is available at https://www.lgpsmember.org/more/Videos.php

Tapered Annual Allowance

For tax year 2016/17 and subsequent tax years the Annual Allowance is reduced on a tapered basis for:

- individuals whose ‘adjusted income’ for the tax year is more than £240,000, **and**
- individuals whose ‘threshold income’ for the same tax year is more than £200,000.

	Definition	**Limit**
Threshold Income	Broadly your taxable income after the deduction of your pension contributions (including AVCs deducted under the net pay arrangement)	£200,000
Adjusted Income	Broadly your threshold income plus pensions savings built up over the tax year	£240,000
Minimum Annual Allowance	If your Annual Allowance is tapered, the minimum Annual Allowance that can apply	£4,000

An individual with ‘threshold income’ of £200,000 or less for a tax year is not subject to the tapered Annual Allowance, even if their ‘adjusted income’ exceeds £240,000.

Threshold income includes income from all taxable sources e.g., property income, savings income, dividend income, pension income, social security income (where taxable), state pension income etc. You are not allowed to deduct from taxable income any amount of employment income given up for pension provision because of any salary sacrifice made on or after 9 July 2015.

Where the taper applies, the Annual Allowance is reduced by £1 for every £2 of ‘adjusted income’ above £240,000. However, this is subject to a minimum reduced Annual Allowance of £4,000.

Where the amount of the reduction is not a multiple of £1 it is rounded down to the nearest multiple of £1.

The Norfolk Pension Fund has the discretion to allow a ‘Scheme Pays’ option based on your tapered annual allowance.

It is a member’s responsibility to work out their tapered annual allowance and any applicable tax charge. If you have queries or concerns regarding your tax position, Norfolk Pension Fund urges you to seek the advice of an independent financial adviser.

What if you have more than one pension scheme?

If you contributed to more than one pension scheme during the relevant tax year in which your total amount of pension savings exceeded your Annual Allowance, the Norfolk Pension Fund has the discretion to pay all the tax charge even if part(s) relates to pension savings outside of the LGPS. Please forward a copy of your Pension Saving Statement(s) if you want the Norfolk Pension Fund to pay a charge relating to another pension scheme.

Money Purchase Annual Allowance (MPAA)

If you have benefits in a money purchase (defined contribution) pension arrangement which you have flexibly accessed on or after 6 April 2015, then the Money Purchase Annual Allowance (MPAA) rules may apply. The MPAA will only apply if your total contributions to a money purchase arrangement in a PIP exceed the MPAA.

Generally, if you have flexibly accessed any benefits in a money purchase arrangement on or after 6 April 2015, any further contributions you make to a money purchase scheme in subsequent tax years will be tested against the MPAA. If your contributions exceed the MPAA, your defined benefit pension (LGPS) savings will be tested against the alternative annual allowance and you will pay a tax charge in respect of your money purchase saving in excess of the MPAA.

Tax Year	MPAA	Alternative annual allowance if MPAA is exceeded
2016/17	£10,000	£30,000
2017/18 onwards	£4,000	£36,000

If you access flexible benefits, you will be provided with a flexible access statement; you should provide the Norfolk Pension Fund with a copy of this statement.

Flexible access means:

- taking a cash amount over the tax-free lump sum from a flexi-access drawdown account
- taking an uncrystallised funds pension lump sum
- purchasing a flexible annuity
- taking a scheme pension from a defined contribution scheme with fewer than 12 pensioner members, or
- taking a stand-alone lump sum if you have primary but not enhanced protection. A stand-alone lump sum is a lump sum relating to pre-6 April 2006 where the whole amount can be taken as a lump sum without a connected pension.

What do I need to do if my pension growth has exceeded the Annual Allowance?

If you exceed your Annual Allowance in any year and you have a tax charge you are responsible for reporting this to HMRC on your self-assessment tax return.

Norfolk Pension Fund are obliged to notify you if your LGPS benefits (plus the amount of any Additional Voluntary Contributions [AVCs] you have paid) exceed the standard allowance in a year by no later than 6 October of the following year.

If you have a tax charge over £2,000 and your pension savings in the LGPS alone have increased in the year by more than the **standard** Annual Allowance you may be able to opt for the LGPS to pay some, or all of the tax charge on your behalf. If your pension savings in the LGPS alone have increased in the year by more than your **tapered** Annual Allowance, The Norfolk Pension Fund has the discretion on whether to accept the tax charge based on the tapered amount. The tax would then be recovered from your pension benefits.

You will need to tell HMRC if you have an Annual Allowance charge by completing a Self-Assessment tax return. If you haven't completed one for a while or ever before you can register to do so here: https://www.gov.uk/log-in-file-self-assessment-tax-return

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

https://www.gov.uk/guidance/who-must-pay-the-pensions-annual-allowance-tax-charge

What is a Scheme Pay Election?

You may be able to make a written election for the Norfolk Pension Fund to pay some, or all of the Annual Allowance charge on your behalf.

Norfolk Pension Fund will pay the Annual Allowance charge if you meet HMRC's mandatory requirements. HMRC mandatory requirements in the relevant tax year are:

- Your Annual Allowance charge exceeds £2,000;
- The total pension input amount of your Norfolk Pension Fund benefits exceeds the standard Annual Allowance; and
- Your scheme pays election is received by Norfolk Pension Fund within the HMRC's deadline.

If the total pension input amount of your Norfolk Pension Fund benefits exceeds your tapered annual allowance, The Norfolk Pension Fund has the discretion to allow a 'Scheme Pays' option.

How will the Annual Allowance charge be recovered?

If you elect for Norfolk Pension Fund to pay your Annual Allowance charge to HMRC then your LGPS benefits will be permanently reduced when they are paid, either on retirement or if you transfer pension benefits out of the fund.

Interest will be added to the amount of Annual Allowance charge paid. The Scheme's actuary confirms the applicable interest. The amount of interest charged may be revised at any time before your retirement or transfer out following guidance from the Scheme's actuary.

In the event of your death any dependents benefits will be based on your pension before any recovery for scheme pays.

What is HMRC's deadline for a Scheme Pays election notice?

If you want the Norfolk Pension Fund to pay some, or all of the tax charge on your behalf, you must notify Norfolk Pension Fund no later than 31 July in the year following the end of the year to which the charge relates. However, if you are retiring (and draw all your benefits from the LGPS) you must tell us before you become entitled to those benefits.

In certain cases, the 31 July deadline can be extended. The Norfolk Pension Fund will notify you if this applies in your case.

Is it possible for you to change your mind and withdraw a Scheme Pays election?

Once your election notice has been received you cannot change your mind and withdraw your request. You should therefore ensure you fully understand the implications of your decision on your future Norfolk Pension Fund benefits before signing the election notice.

If you have queries or concerns regarding your tax position, Norfolk Pension Fund urges you to seek the advice of an independent financial adviser.

Can Norfolk Pension Fund refuse to pay an Annual Allowance charge?

Norfolk Pension Fund has a statutory right to refuse to pay your Annual Allowance charge if you:

- miss HMRC's deadline for a Scheme Pays Election;
- do not meet HMRC's mandatory conditions
- are aged 75 or over and your election was not received before your 75^{th} birthday;
- are retiring but did not send the election with your retirement application form or before your Norfolk Pension Fund benefits crystallise;
- leave the Norfolk Pension Fund and a transfer value has been paid to another registered pension scheme.

In addition, a request can be made to HMRC not to pay your Annual Allowance charge if you:

- have insufficient funds in the fund to pay the amount of tax you have elected for us to pay; or
- die after Norfolk Pension Fund receives your election notice but before the Annual Allowance charge is actually paid to HMRC.

In these cases, Norfolk Pension Fund will ask HMRC for a discharge from paying the charge and you or your estate must then account for this tax.

What should you do when completing the Scheme Pays Election?

You should only complete an election notice if you want the Norfolk Pension Fund to pay some or all of your Annual Allowance charge to HMRC. You must still tell HMRC of your Annual Allowance charge on your tax return and confirm scheme pays.

Further Information

Norfolk Pension Fund is not registered with the FCA and so cannot provide any financial advice. This booklet is the limit of information, in addition to a Pension Saving Statement we can provide in relation to Annual Allowance. If you have queries or concerns regarding your tax position, Norfolk Pension Fund urges you to seek the advice of an independent financial adviser.

Norfolk Pension Fund

Local Government Pension Scheme

Annual Allowance Scheme Pays Election Notice

You should only complete this election notice if you want Norfolk Pension Fund to pay some or all of your LGPS Annual Allowance charge.

To be eligible for Scheme Pays, the mandatory requirements are:

- The growth in your Norfolk Pension Fund benefits in the relevant tax year must exceed the Annual Allowance;
- The total amount of the Annual Allowance change must be more than £2,000; and
- The election notice must be received by Norfolk Pension Fund within the HMRC's deadline (see guidance notes)

A separate election notice is required if you have an Annual Allowance charge in another tax year or make a change to a previous election notice.

Part A: Personal Details

Full Name			
Employer			
NI Number		**Payroll Reference**	
Address			
Telephone			

Part B: Annual Allowance charge details

Relevant tax year in which the Annual Allowance charge occurred	/
Is this a change to a previous election for this tax year?	**Yes / No**
The amount of Norfolk Pension Fund benefit growth exceeding the Annual Allowance, after applying carry forward, for this tax year:	**£**
Tax rate(s) payable in this tax year applicable to the charge	**%**
The amount of Annual Allowance you want Norfolk Pension Fund to pay HMRC on your behalf	**£**
Is this an estimate of your Annual Allowance charge?	**Yes / No**

Please return the completed form by post to:
Norfolk Pension Fund, County Hall, Martineau Lane, NORWICH, NR1 2DH

Part C: Annual Allowance Charge Details – Tapered Allowance

You should only complete this section if your Annual Allowance charge is based on your tapered allowance (see guidance notes).

My tapered allowance for the relevant year shown in Section B is: £

Please tick the box to confirm evidence of your tapered allowance amount calculated by your financial adviser/accountant or HMRC calculator (see guidance notes) has been provided with this form. ☐

Part D: Anticipated events

Before HMRC's Scheme Pays deadline expires, do you expect to:

a) retire and take your benefits from the Norfolk Pension Scheme? **Yes / No**

If yes, enter the date of your intended retirement / /

b) reach age 75 without taking all of your Norfolk Pension Scheme benefits? **Yes / No**

If yes, please enter the date of your 75th birthday / /

If applicable, Norfolk Pension Fund must receive your election notice before the earliest date above.

Part E: Scheme Pays Member Declaration

I want Norfolk Pension Fund to pay my Annual Allowance charge, as stated in Part B, to HMRC.

I confirm in the relevant tax year:

- The growth of my Norfolk Pension Fund benefits exceeded the Annual Allowance;
- The total Annual Allowance charge exceeds £2,000, (even if the amount I want Norfolk Pension Fund to pay is lower);
- The Annual Allowance charge specified in this notice has been calculated at the relevant rate as describe in section 237B(4) of the Finance Act 2004, meaning the same marginal tax rate as my taxable income; and
- I have read the Scheme Pays Election guidance notes.

I understand:

- This election is irrevocable and I cannot cancel the election at a later date (although it may be amended by sending a further notice (see guidance notes for deadlines);
- If I die after receipt of this election notice but before the Annual Allowance charge is paid then Norfolk Pension Fund will ask HMRC for a discharge from paying the charge and my estate must account for this liability;
- Interest is added up to the date my Norfolk Pension Fund benefits crystallise or I transfer out; and
- My Norfolk Pension Fund benefits will be permanently reduced in order for the Scheme to recover the Annual Allowance charge paid on my behalf to HMRC.

Signed **Date** / /

Norfolk Pension Fund reserves the right to request a discharge from paying the Annual Allowance charge if you have insufficient scheme benefits from which to recover the charge.

A separate election notice is required if you have an Annual Allowance charge in another tax year or make a change to a previous election notice.