



LOCAL PENSION BOARD

12 JUNE 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ANNUAL ALLOWANCE

Purpose of the Report

1. The purpose of this report is to inform the Board about changes to the annual allowance.

Background

2. The annual allowance is the annual limit on pension savings that a scheme member can make in each year which will receive tax relief. If the value of pension benefit grows by more than this allowance, then the excess amount may become subject to a tax charge. The annual allowance is £40,000.
3. The Pension Section has a statutory duty to write to scheme members who breach the annual allowance by the 6 October each year, e.g. 2016/17 breaches will be written to by the 6 October 2017.

Annual Allowance - Mandatory Scheme Pays

4. Scheme members who breach the annual allowance have options to pay the tax charge under the mandatory scheme pays rules;
 - Make payment of the tax directly to HMRC, or,
 - For tax charges over £2,000 opt for mandatory scheme pay. This means the Pension Fund pays the tax on the member's behalf but then reduces the member's future pension benefits. This is known as the "annual allowance debit".
 - For tax charges under £2,000 the member has to make payment to HMRC directly.

Taper Annual Allowance – Voluntary Scheme Pays

5. In tax year 2016/17 HMRC introduced a new annual allowance, this is known as the tapered annual allowance.

6. The taper annual allowance is aimed at the higher earners. Scheme members with annual income above £150,000 have their Annual Allowance reduced by £1 for each £2 they earn above £150,000. The maximum reduction is £30,000, which means that people with annual income of £210,000 or above have an Annual Allowance reduced from £40,000 to only £10,000.
7. Scheme members who breach the tapered annual allowance have options to pay the tax charge under the voluntary scheme pays rules;
 - Make payment of the tax directly to HMRC, or,
 - Opt for mandatory scheme pays for the non-tapered breach
 - But the member cannot request voluntary scheme pays on the tapered breach unless the Pension Fund administrator allows this.
8. This change has added additional complexity to an already complex area of pension taxation.
9. To try and simplify the process and to assist scheme members with a tapered annual allowance breach, the Leicestershire Pension Fund has decided to allow voluntary scheme pays but only in the circumstances shown below;
 - If the total tax charge is over £2,000. If the total tax charge is under £2,000 the member will have to pay the tax to HMRC directly (as they do under mandatory scheme pays).
 - If the tapered breach is from the member's own Leicestershire Fund Local Government Pension Scheme benefits. If the tax charge is due to other pension benefits the member has elsewhere, then voluntary scheme pays is not available.
10. If the Leicestershire Pension Fund did not allow voluntary scheme pays, some higher earners in with a tapered annual allowance breach could incur significant tax charges that would have to pay directly to HMRC.

Timeline

11. HMRC have also introduced different timelines for payment of the tax charges between mandatory and voluntary scheme pays. This adds further complexity so the Leicestershire Fund has decided to deal with all breaches using the earlier of the two deadlines, this being the voluntary scheme pays.

Recommendation

12. It is recommended that the Board notes the report.

Equality and Human Rights Implications

None specific

Officers to Contact

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