

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Committee

Date: 19 October 2017

Report by: Head of Pensions

Subject:	Annual Allowance - Voluntary Scheme Pays
Purpose of the Report	To present the Pension Fund Committee with information about the Voluntary Scheme Pays option in relation to Annual Allowance Charges that may have been incurred by Local Government Pension Scheme members
Recommendations	The Committee are asked to agree to the introduction of a policy permitting members to use Voluntary Scheme Pays in specified circumstances.
Enquiries to:	Name – Jo Walton, Governance and Regulations Manager E-mail – jwalton@northamptonshire.gov.uk

1. Background

- 1.1 Annual Allowance is one of the limits set by the Government in relation to the level of an individual's pension savings, known as pension input, before a charge becomes due to HM Revenue and Customs (HMRC).
- 1.2 Scheme Pays has become the term used for the mechanism by which an individual who has incurred an annual allowance charge can elect to have a pension scheme pay the charge to HMRC on their behalf in return for a reduction, or offset, being applied to their eventual benefits.
- 1.3 Mandatory Scheme Pays (MSP) applies when a member's pension input in relation to a pension scheme in a tax year exceeds the standard annual allowance and they incur an annual allowance charge greater than £2,000 on those savings in that scheme.
- 1.4 Local Government Pension Scheme (LGPS) administering authorities have the power to grant a member's request to pay their annual allowance charge even if they do not meet the criteria for MSP to apply; this mechanism has become known as Voluntary Scheme Pays (VSP).
- 1.5 With the introduction of the Tapered Annual Allowance provisions from the beginning of the 2016/2017 tax year a member may now incur an annual allowance charge on LGPS pension savings of up to £30,000 that cannot be dealt with under MSP as explained in paragraph 2.4.

- 1.6 If VSP was not permitted, members may be in the position of having to settle potentially significant charges with HMRC themselves through the self-assessment tax return process.
- 1.7 This report sets out further details about the assessment of pension savings values, for annual allowance purposes, scheme pays and a suggested policy regarding when VSP should be permitted.

2. Annual Allowance and Scheme Pays

- 2.1 The LGPS is a defined benefit scheme and so the assessment of a member's pension savings that are to be measured against the annual allowance is based on the difference in relative value of their pension benefits at the beginning and end of a tax year. The value of £1 of annual pension is the equivalent of £16 for annual allowance purposes. Members who have longer periods of 'final salary' linked scheme membership, may have a pension input that is greater than the annual allowance if they are promoted or see a significant increase in their pensionable pay during a year.
- 2.2 The reduction in the level of Standard Annual Allowance over the years since its introduction in the 2006/2007 tax year at £215,000 to the £40,000 it currently stands at, the increase in the accrual rate in the main section of the LGPS from 1 April 2014 and now the introduction of Tapered Annual Allowance, have all increased the likelihood of members incurring an annual allowance charge.
- 2.3 Changes to the Finance Act 2004 that came into force on 19 July 2011 introduced the MSP provisions and prior to the 2016/2017 tax year they have enabled a handful of LGPS members in the Cambridgeshire Pension Fund to effectively manage their annual allowance charges in excess of £2,000 resulting from exceeding the standard annual allowance as a result of their LGPS membership by requesting that the charge be paid on their behalf from the pension fund in return for an offset against their eventual pension benefits.
- 2.4 It is mandatory to accede to a request that falls within the MSP provisions however, with the introduction of tapered annual allowances for 2016/2017, members are facing for the first time the possibility of incurring potentially significant annual allowance charges that do not fall within the scope of MSP since some or all of the charge does not relate to pension savings in excess of the standard annual allowance.
- 2.5 Where MSP cannot apply in relation to an annual allowance charge incurred by an individual, it is possible for a pension scheme to agree with a member that they will voluntarily pay some or all of any annual allowance charge on their behalf in return for a reduction, or offset, being applied to their eventual pension benefits. This has become known as Voluntary Scheme Pays (VSP) in order to distinguish it from MSP but has not been considered previously in relation to the LGPS.
- 2.6 The Standard Annual Allowance for the 2016/2017 tax year, and subsequent years, has been set at £40,000. From 2016/2017 onwards 'high earners' may have an individual Tapered Annual Allowance apply to them based upon their own circumstances; this Tapered Annual Allowance can be as low as £10,000.
- 2.7 For context, a high earner for this purpose is someone with:

- ‘Threshold Income’ (broadly, taxable income from all sources after the deduction of employee pension contributions) of more than £110,000, and
- ‘Adjusted income’ (broadly, threshold income plus pensions savings built up over the tax year in question) of more than £150,000.

- 2.8 The Tapered Annual Allowance provisions could, at present, result in a charge of up to £13,500 (i.e. the maximum taper of £30,000 charged at the additional tax rate of 45%) that would not fall within the scope of MSP. If VSP was not an option available the member would need to settle such a charge directly with HMRC via the self-assessment tax process by the 31 January following the end of the tax year in which the charge was incurred.
- 2.9 An example of how a Tapered Annual Allowance leading to an Annual Allowance Charge and the effect of VSP notice being permitted can be found in **appendix 1**.
- 2.10 The reporting of pension savings upon which an annual allowance charge is due is done via an individual’s self-assessment tax return. The administering authority must also report to HMRC details of members that have exceeded the standard annual allowance.
- 2.11 There is no specific time limit for making a VSP request, however until payment is made the member remains solely liable for the charge. They are also solely liable for any late payment penalties or interest charges incurred if payment is not received by HMRC by the standard self-assessment tax deadline of 31 January following the end of the tax year in which the charge was incurred.
- 2.12 It is recommended that VSP is made available to members of the Cambridgeshire Pension Fund and the policy set out in section 3 be adopted with immediate effect.

3. Policy on ‘Voluntary Scheme Pays’

- 3.1 Cambridgeshire County Council as the administering authority to the Cambridgeshire Pension Fund will accede to a request that they pay an amount of annual allowance charge to HMRC on behalf of a member on a voluntary basis in the following circumstances:
- 3.2 The member provides a signed form of request, obtained from the Pension Fund, which
- Specifies the amount of the annual allowance charge they wish to be paid from the Pension Fund, and the tax year in which it arose, and
 - Confirms that the actual charge incurred was greater than £2,000 if the amount they wish to be paid by the Pension Fund is less than £2,000.
 - Confirms the amount of the charge they have specified was incurred while a member of the Cambridgeshire Pension Fund and it results solely from an increase in pension savings attributable to a pension input amount within the LGPS with the Cambridgeshire Pension Fund, and the charge either:
 - results from the member being subject to a Tapered Annual Allowance, or

- could have been subject to a Mandatory Scheme Pays notice, but is now out of time.

- 3.3 Having acceded to such a request payment of the specified charge will be made to HM Revenue and Customs within 20 working days following receipt of the notice and, following payment, an appropriate adjustment to the member's pension benefits will be made. The adjustment, based on the specified charge paid will be assessed in accordance with guidance issued by the Department for Communities and Local Government and prepared for them by the Government Actuary's department.
- 3.4 The member is solely liable for payment of the annual allowance charge until such time as HM Revenue and Customs receive payment from the Cambridgeshire Pension Fund, and the member will still be liable for any interest and penalties that may apply if payment of the charge is not received by HM Revenue and Customs within the applicable self-assessment tax deadline.

4. Relevant Pension Fund Objectives –

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. <i>Objective 1</i>
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. <i>Objective 2</i>
Promote the Scheme as a valuable benefit. <i>Objective 12</i>

5. Finance & Resources Implications

- 5.1 Allowing scheme members to exercise their right to request an Annual Allowance Charge to be paid via Voluntary Scheme Pays will result in additional administration although the amount of members that might wish to exercise this right is expected to be of a low volume.

6. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
There are no risks in allowing a member to exercise their right to request an Annual Allowance Charge to be paid via Voluntary Scheme Pays. The Annual Allowance Charge remains the member's responsibility.	Not applicable	Not applicable

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
The administering authority does not have to allow Voluntary Scheme Pays to scheme members who exceed their personal Tapered Annual Allowance. The Annual Allowance tax charge is the personal responsibility of the scheme member.	Green

7. Communication Implications

Direct Communications	Should the administering authority allow scheme members to pay their Annual Allowance tax charges via Voluntary Scheme Pays, scheme members will be notified of this option when they present and meet the conditions required.
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8. Legal Implications

8.1 There are no legal implications associated with this proposal.

9. Consultation with Key Advisers

9.1 Consultation with the Fund's advisers was not required for this report.

10. Alternative Options Considered

10.1 The administering authority is entitled to not allow scheme members to utilise Voluntary Scheme Pays.

11. Background Papers

11.1 Not applicable

12. Appendices

12.1 Appendix 1 - Example of a Tapered Annual Allowance leading to Annual Allowance Charge and effect of Voluntary Scheme Pays notice being permitted.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	No
Will further decisions be required? If so, please outline the timetable here	No
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Sent to Sarah Heywood – 6 October 2017
Has this report been cleared by Head of Pensions?	Mark Whitby – 06 October 2017
Has the Chairman of the Pension Fund Committee been consulted?	Sent to Councillor Hickford – 6 October 2017
Has this report been cleared by Legal Services?	Sent to Quentin Baker – 6 October 2017