



62 The Street
Ashted
Surrey
KT21 1AT

T: 01737 844322 F: 01737 844162
Email: david@dbeckman.com

David Beckman & Co Ltd
Chartered Accountants & Chartered Tax Advisers

What should I do if I end up with an excess annual pension allowance charge?

Most pension schemes allow you to opt for the pension scheme to pay your excess annual allowance pension charge rather than you to have to pay this from your own taxed income.

A. MANDATORY SCHEME PAYS

Mandatory Scheme Pays only applies where the conditions below are met and the member gives the required notice. You can elect for your pension scheme to pay all or part of your annual allowance charge for you in exchange for a reduced pension in the future if the following 2 conditions are met:

- (i) the total value of your pension inputs in your pension scheme (including any AVCs) in the tax year exceeded the standard Annual Allowance (for tax year 2017-18, this means exceeded £40,000 - the tapered annual allowance is ignored); and
- (ii) the Tax Charge for the tax year has exceeded £2,000.

The latest date by which you must have confirmed your intention to go ahead with Mandatory Scheme Pays is 31 July 2019 in respect of the annual allowance charge for 2017/18

There are practical issues however, as your tax return needs to be submitted by 31 January 2019 and on the return, you are expected to state how much of the tax is to be paid via your pension scheme rather than by you personally. This is so HMRC know what tax to expect you to pay by 31 January 2019. Also, HMRC may levy an automatic 5% penalty x any tax which HMRC expects you to pay but which remains unpaid by you by 28 February 2019.

B. VOLUNTARY SCHEME PAYS

Where you do not meet the conditions for Mandatory Scheme Pays - because your pension inputs for the year were not more than £40,000 and / or the tax charge is less than £2,000, then your pension scheme may pay your Annual Allowance charge on a voluntary basis.

However, the deadline imposed by HMRC, by which the scheme voluntarily pays the tax charge is shorter - 31 January 2019 in respect of the 2017/18 tax return.



Registered in England Registered Number: 04744238
Registered Address: 62 The Street, Ashted, Surrey, KT21 1AT

Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales

Registered with the Chartered Institute of Taxation as a firm of Chartered Tax Advisers

Director: **David John Beckman**
MA (Cantab) FCA CTA FPC

VAT No: 812 3468 46



Your particular scheme may in fact have an earlier deadline, say 31 December 2018 so as to give the trustees time to make the necessary arrangements and there can be penalties imposed by the scheme itself for missing this earlier deadline.

1. How much tax can I ask the Trustee to pay?

- You can ask the Trustee to only pay part of the Tax Charge if you wish.
- If you do this, you must then pay the balance of the Tax Charge yourself to HMRC by the normal due date through your self-assessment tax return.

2. If you use Scheme Pays one year and have a Tax Charge in a future year, do you have to use Scheme Pays again?

- No. You can make a separate decision regarding Scheme Pays in each year that you have a Tax Charge.

3. How will Scheme Pays affect your Lifetime Allowance?

- The test of the value of your pension savings against the Lifetime Allowance will use the value of your pension savings *after the reduction* for tax the scheme itself has had to pay over to HMRC. Thus, if you are close to the lifetime pension allowance, getting the scheme to pay may assist you.

A negative deferred pension will be calculated as at the time of the Tax Charge by the scheme actuary. The offset is revalued up to retirement in the same way as other deferred pensions in the scheme. When your pension comes into payment, it will be reduced by the re-valued amount of the offset. You should see a lower accrued pension on your next benefit statement as a result of the scheme paying the tax due on your behalf.

We always recommend that you take independent financial advice as the issues are complex. We ourselves are not authorised to provide independent financial advice. BUT we work extremely closely with an independent financial adviser / planner, Zac of Magus Private Wealth.

62 The Street Ashted Surrey KT21 1AT
Tel: 01737 844322 Fax: 01737 844162 Email: david@dbeckman.com

This fact sheet is for information only. It provides an overview of the regulations currently in force and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore, no responsibility for loss occasioned by any person or refraining from action as a result of this material can be accepted by the authors or the firm.