

Chamberlain's Department

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Our ref PG/PENSIONS/JH

Case Officer

Jeff Henegan

Date

Dear Scheme Member

Local Government Pension Scheme – Annual Allowance

I am writing to you as a pension scheme member with regards to the Annual Allowance and in particular the introduction of the Tapered Annual Allowance in the tax year 2016/17. This may affect you if your taxable income is £110,000 or over (referred to as the threshold income).

The Annual Allowance is the amount by which the value of your pension benefits may grow in any one year without you having to pay a tax charge. You are assessed on pension benefits in all tax-registered pension arrangements that you (or an employer) have paid in to in a tax year. If your threshold income is less than £110,000 per annum your annual allowance will be at the standard level which is £40,000 for 2016/17 and 2017/18.

Scheme members with a threshold income of £110,000 or over will subject to a Tapered Annual Allowance when their taxable income plus the growth in their pension benefits (this is known as the adjusted income) in a year exceed £150,000. For every two pounds the adjusted income exceeds £150,000 a scheme member's Annual Allowance is tapered down by £1 to a minimum level of £10,000. Further details regarding Tapered Annual Allowance can be found at;

<https://www.gov.uk/government/publications/pensions-tapered-annual-allowance>

Paying the Annual Allowance Tax Charge

You would only be subject to an Annual Allowance tax charge if the value of your pension benefits for a tax year increases by more than your Annual Allowance. However, a three year carry forward rule allows you to carry forward unused Annual Allowance from the last three tax years and offset this against any excess. This means that even if the value of your pension savings increase by more than your Annual Allowance in a year you may not be liable to the annual allowance tax charge. To carry forward unused Annual Allowance from an earlier year you must have been a member of a tax registered pension scheme in that year.

You are responsible for reporting to HMRC on your self-assessment tax return if you exceed the Annual Allowance for the year and do not have sufficient unused carry forward to offset the growth in pension benefits. You will be subject to a tax charge by HMRC.

For tax charges of £2,000 or more on the pension growth above the standard Annual Allowance (presently £40,000) you can request the pension scheme to pay the tax on your behalf, this is known as Mandatory Scheme Pays. To use this option scheme members must notify the Pensions Office no later than 31 July in the year following the end of the year to which the Annual Allowance charge relates (i.e. by 31 July 2018 for charge relating to the tax year 2016-17). The tax charge would be recovered by a reduction in your annual pension when you retire.

An important change following the introduction of the Tapered Annual Allowance are the options available on paying a tax charge on growth in pension benefits between a scheme member's Tapered Annual Allowance and the standard Annual Allowance.

Tax charges in relation to growth between Tapered and standard Annual Allowance falls under HMRC's **Voluntary Scheme Pays option**. Voluntary Scheme Pays allows a pension scheme to pay Annual Allowance charges (in return for a reduction in pension benefits) not covered by the Mandatory Scheme Pay option. The acceptance of Voluntary Scheme Pays is at the discretion of the Administration Authority.

The City of London Pension Fund has exercised its discretion to accept Voluntary Scheme Pays requests under the following circumstances;

- a) a scheme member is subject to the tapered Annual Allowance; **and**
- b) that scheme member's total Voluntary Scheme Pays tax charge is £2,000 or more. This can be derived either from solely the tapered Annual Allowance or a combination of that tax charge and the standard Annual Allowance (where this latter tax charge is less than £2,000); **and**
- c) the scheme member's tapered Annual Allowance tax charge stems only from the Annual Allowance relating to LGPS benefits in the City of London Pension Fund; **and**
- d) the application is received in writing by the City of London Pension fund by 31 December in the tax year following the year to which the tax charge relates.

The Chamberlain may consider accepting Voluntary Scheme Pays requests for other cases outside of the circumstances outlined above on a case by case basis.

The tax charge for the excess growth between the Tapered and standard Annual Allowance must be paid by the 31 January in the year following the year to which the tax charge relates (i.e. paid by 31 January 2018 for a tax charge relating to 2016/17). Any applications under Voluntary Scheme Pays must be received by the Pensions Office no later than 31 December.

This information is based on present HMRC guidance and could be subject to change. This is a complex issue and the above is our current understanding of the legislation as it stands. The relevant regulations will be used to reach a decision in any dispute or disagreement. You may wish to seek independent financial advice.

Enclosed is a fact sheet on the Annual Allowance and a copy of both the Mandatory and Voluntary Scheme Pays option forms.

If you have any queries in relation to this matter please contact Jeff Henegan.

Yours sincerely

Jeff Henegan
Interim Pensions Manager

**The City of London
The Local Government Pension Scheme**



Voluntary Scheme Pays Form

Election for the Scheme to pay the Tapered Annual Allowance Charge in Return for a Reduction in Pension Benefits

Personal Details

Title:	
Surname:	
Forename(s):	
Address:	
Postcode:	
National Insurance Number:	

Charge Details

Tax year to which charge relates:	
Amount of charge liability to be paid:	

Declaration

I confirm the following:

- The amount of the liability that I wish the scheme to pay has been calculated at the proper rate.
- I understand that I cannot withdraw this notice once made.
- I understand that my pension benefits from the scheme will be adjusted to take account of the tax that will be paid on my behalf by the scheme.
- I understand that by signing and returning this notification I remain solely liable for the tax charge I have asked to be paid.
- The charge arises solely from benefits built up within the City of London Pension fund.
- I am subject to the Tapered Annual Allowance

Signed:	
Date:	

Notes

The notification to pay your annual allowance charge must be received by the Local Government Pension Scheme by 31 December in year following the year to which the charge relates – for example, if the charge relates to the tax year 2016-17 then the notification must be received by 31 December 2017.

The notification must be received by 31 December. It is not enough to have just sent the notification by that date.

If you intend to retire before 31 December following the tax year in which a liability has been accrued then your notification must be received by the Scheme before your date of retirement.

The City of London accepts Voluntary Scheme Pays requests on the following the basis;

- You are subject to the Tapered Annual Allowance
- Your tax charge exceeds £2,000
- The charge arises solely from benefits built up within the City of London Pension fund.

By signing and returning this notification you remain solely liable for the tax charge indicated. The City of London will pay to HMRC the tax charge specified but you will have to report the amount of tax the scheme will be paying in your own Self-Assessment tax return.

For further information please visit:

<https://www.gov.uk/tax-on-your-private-pension/annual-allowance>

The City of London
The Local Government Pension Scheme



Mandatory Scheme Pays Election Form

Election for the Scheme to pay the Annual Allowance Charge in Return for a Reduction in Pension Benefits

Personal Details

Title:	
Surname:	
Forename(s):	
Address:	
Postcode:	
National Insurance Number:	

Charge Details

Tax year to which charge relates:	
Amount of charge liability to be paid:	

Declaration

I confirm the following:

- The amount of the liability that I wish the scheme to pay has been calculated at the proper rate.
- I understand that I cannot withdraw this notice once made.
- I understand that my pension benefits from the scheme will be adjusted to take account of the tax that will be paid on my behalf by the scheme.
- I understand that by signing and returning this notification I and the City of London will have a joint and several liability in respect of the tax charge I have asked to be paid.

Signed:	
Date:	

Notes

The notification to pay your annual allowance charge must be received by the Local Government Pension Scheme by 31 July following the tax year in which the charge relates – for example, if the charge relates to the tax year 2013-14 then the notification must be received by 31 July 2015.

The notification must be received by 31 July. It is not enough to have just sent the notification by that date.

If you intend to retire before 31 July following the tax year in which a liability has been accrued then your notification must be received by the Scheme before your date of retirement.

The City of London is only required to offer ‘scheme pays’ if your benefits accrued in the Local Government Pension Scheme exceed the annual allowance for the given tax year and the charge owed is greater than £2,000. If you have exceeded the annual allowance by having pension savings in other pension schemes then the City of London will only be able to pay the charge accrued in your Local Government Pension Scheme membership.

By signing and returning this notification you will have joint and several liability with the City of London for the payment of the tax charge indicated. The City of London will pay to HMRC the tax charge specified but you will have to report the amount of tax the scheme will be paying in your own Self-Assessment tax return.

For further information please visit:

<https://www.gov.uk/tax-on-your-private-pension/annual-allowance>