Med-Ex financial advisory services limited

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Med-Ex On-Call

FACTSHEET SEPTEMBER 2017

SCHEME PAYS – PAYING THE ANNUAL ALLOWANCE CHARGE

With the introduction of the Tapered Annual Allowance and the reduction in the Money Purchase Annual Allowance, it is likely that more and more people will breach the limits and find themselves liable to an Annual Allowance charge of one form or another.

Scheme Pays is a mechanism by which the Annual Allowance charge can be paid out of a pension scheme, rather than by the member personally. This has the advantage of the member not having to find additional funds to pay the charge.

An Annual Allowance charge arises when any of the Annual Allowances are exceeded. There are now four different Annual Allowances in place:

	2016/17	2017/18
Annual Allowance (AA)	£40,000	**£40,000**
Money Purchase Annual Allowance (MPAA)	£10,000	**£4,000**
Tapered Annual Allowance (TAA)	**£10,000 - £40,000 depending on income** *Annual Allowance is reduced by £1 for every £2 of Adjusted Income over £150,000*	
Alternative Annual Allowance (AAA) *This only applies to defined benefit schemes where the MPAA has been triggered and exceeded*	£30,000 or less	**£36,000 or less** *(may be reduced by the taper)*

Those who have not triggered the MPAA can still use carry forward to reduce or eliminate any charge. If the MPAA has been triggered, carry forward can only be used in relation to defined benefit accrual.

Where can Scheme Pays be used?

Annual Allowance Charge of £40,000 has been exceeded **and** Annual Allowance charge for the tax year exceeds £2,000

The scheme is required to pay the charge as long as the member notifies the scheme by 31 July in the tax year 2 years after the tax year to which the Annual Allowance charge relates. The member cannot notify the scheme before the end of the tax year in which the charge arises.

Only the MPAA or TAA has been exceeded

Scheme Pays **cannot** be used, but it may be possible to use **'Voluntary Scheme Pays'** instead.

Voluntary Scheme Pays

When the conditions for Scheme Pays are not met, a scheme may pay the member's Annual Allowance charge on a voluntary basis.

- Voluntary Scheme Pays can be used to pay charges arising from exceeding the MPAA or TAA where the AA is not exceeded.
- It can also be paid from a scheme other than that which received the contributions relating to the charge. For example, a higher earner in a defined benefit scheme may exceed their Tapered Annual Allowance due to benefit accrual in that scheme, but could have the charge paid on a voluntary basis from a private pension they also hold.
- **Schemes do not have to offer this facility** and, unlike Scheme Pays, they do not become jointly liable for the charge.
- As the liability remains with the member, the payment made by the scheme under Voluntary Scheme Pays should be paid by the member's normal Self-Assessment deadline.
- It is possible to pay some of the charge personally and some from the scheme.
- Pension schemes may apply a charge for offering Voluntary Scheme Pays.

Voluntary Scheme Pays can be used to pay any Annual Allowance charge. However, schemes do not have to offer this facility.

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