

## **EAST SUSSEX FIRE AND RESCUE SERVICE (ESFRS) MANDATORY AND VOLUNTARY SCHEME PAYS (MSP & VSP)**

This communication explains Annual Allowance, the use of MSP and VSP, how to access it, report it to HMRC, penalties, etc., and the impact on pension.

### **Pensions and Tax**

The Annual Allowance (AA) is the amount of tax-free pension savings UK taxpayers may make in any one Pension Input Period (PIP). Since 2015-16, the PIP for all pension arrangements has been aligned with the tax year. The AA is currently £40,000.

Where the full amount of the Annual Allowance is not used in any one PIP, there is a facility to carry forward the unused part of the AA for up to three years thereafter and use it in a subsequent year to allow inputs which might exceed one year's AA.

Where a member breaches the annual allowance (AA) in relation to any input period, and there is no available AA from previous years to offset against the pension growth, they may face a tax charge on the excess amount.

Under certain conditions, individuals may elect that the pension scheme pays any tax due to HMRC on their behalf.

A '**scheme pays**' pension facility works by having the pension scheme pay the member's tax charge initially from the pension fund, with the debt repaid by the member as a permanent debit is applied to their pension once it comes into payment.

ESFRS have decided, as Scheme Manager, to allow Voluntary Scheme Pays to operate in respect of Annual Allowance Tax Charges in the following circumstances:

1. Where a member does not meet the conditions for Mandatory Scheme Pays (MSP) to apply
2. Where a member does not make their nomination for MSP in time
3. Where a member is subject to Tapered Annual Allowance ('Tapered AA') which reduces from £40,000 to £10,000 incrementally for those earning between £150,000 and £210,000 per annum
4. Where the member is a transitional member with pension with growth in two schemes exceeding HMRC AA limit, but with the pension growth in any one of the schemes falling short of the HMRC AA limit. As such, they will not be eligible to use MSP to pay the AA tax charge.

**Any scheme member who has determined that a tax charge is due as a result of pension accrual during any tax year should contact the Pensions Administrator (currently West Yorkshire Pension Fund) on Telephone: 01274 434999 or Email: [pensions@wypf.org.uk](mailto:pensions@wypf.org.uk) to establish whether Mandatory or Voluntary Scheme Pays may be used to discharge their liability for that year.**

## Annual Allowance Scheme Pays Election Notice

You should complete an election only if you want the Firefighters' Pension Scheme to pay some or all of your Annual Allowance charge because the growth in your pension scheme pension benefits is in excess of your available Annual Allowance in respect of a particular Pension Input Period (PIP).

### Mandatory Scheme Pays (MSP)

A Scheme Pays election notice on a **mandatory** basis requires the following conditions to be met:

1. pension growth in either:
  - the 1992 Scheme or
  - the 2006 Scheme or
  - the 2015 Schememust exceed the standard Annual Allowance, and
2. your total Annual Allowance charge must be more than £2,000, and
3. your election must be received by 31 July of the following year after the annual allowance charge occurred

### Voluntary Scheme Pays (VSP)

Your Scheme Manager will determine the circumstances under which Voluntary Scheme Pays may be made available if you do not qualify for MSP as set out above. This may include transitional members who exceed the Annual Allowance through membership of more than one scheme, or those subject to the Tapered Annual Allowance (see below).

If the scheme pays your Annual Allowance charge on a Voluntary Scheme Pays basis, you remain liable for this charge; unlike MSPs, there is not joint liability. Even though we will pay over the charge on your behalf you will remain solely liable until it is paid.

You will be responsible for any interest HMRC may charge where the Annual Allowance charge is paid after the self-assessment tax return deadline. The Scheme Manager will not be responsible under any circumstances for any interest charges or penalty in respect of a VSP election.

You need to report the amount of Annual Allowance charge being paid by the 1992/2006 Scheme and 2015 Scheme on your self-assessment tax return.

### Annual Allowance

The standard Annual Allowance limit is currently £40,000 as confirmed in section 228(1) of the Finance Act 2004.

### Tapered Annual Allowance

Although the standard annual allowance is £40,000, from 6 April 2016 a tapered annual allowance applies to higher earners.

Individuals who have an **adjusted income** greater than £150,000 and whose **threshold income** is greater than £110,000 will see their annual allowance reduced by £1 for every £2 of adjusted income

over £150,000, subject to a remaining annual allowance of not less than £10,000. If you think you're affected by these limits you should speak to a financial adviser.

**Threshold income** £110,000 includes:

- Salary / bonuses / pension income in payment
- P11d earnings
- interest on savings
- rental income
- dividend payments
- salary sacrificed in pension arrangement set up or increased after 9/7/2015
- **Less reliefs** (which will include member pension contributions) but not allowances (such as the personal allowance).

**Adjusted income** £150,000 includes **Threshold Income plus:**

- Total pension contributions to a Defined Contribution arrangement –e.g. AVCs
- Total pensions accrual in a Defined Benefit scheme – e.g. Firefighter Pension Schemes

## FAQs

### How do I know if tax is due?

You will receive a pensions savings statement each year which shows your annual pension growth in the Firefighters' Pension Schemes. If it exceeds the Annual Allowance, you may have to pay tax. But you'll need to look at your pension growth over the past three years, and maybe longer, to determine whether any tax is due.

If you earned over £110,000 in total in a tax year, from your Fire income and other sources, less any tax relief, you may owe some tax, as your Annual Allowance may be subject to a reduction.

You need to speak to your pensions administrator to get the figures and may need to consult an independent financial adviser.

### Can I pay the tax myself?

Yes. If tax is due, you need to report it on your self-assessment tax return. If you want to pay the bill directly yourself, the tax return will calculate what you owe.

You need to pay it by 31 January in respect of the previous tax year. (For example, you need to pay by 31 January 2020 in respect of 2018-19 tax year).

### How do I access Scheme Pays?

Speak to your administrator in the first instance. You'll need to complete a form. If your administrator is unable to make payment by 31 January, you may be liable for interest or a penalty. You'll have to pay these yourself once you have received notification from HMRC.

### What will happen to my pension?

It will be permanently reduced to recover the cost of the tax paid on your behalf. This will also impact the overall commutation available under the 1992 scheme (because the value of the pension is lower). But survivor benefits are not affected by the reduction.