Annual allowance charge: using scheme pays

This guide explains how scheme pays can be used for defined contribution (money purchase) pension schemes. If you are a member of a defined benefit (final salary) scheme contact your scheme administrator for further details.

What is 'scheme pays'?

When you exceed the annual allowance and incur a tax charge, known as the annual allowance charge, you may have a choice regarding how to pay it.

This can either be by settling the liability yourself and accounting for it in your self-assessment tax return or by requesting your pension scheme administrator pays all or some of it for you.

In return they will reduce the amount of your pension benefits under the scheme appropriately. This is called 'scheme pays'.

When can I use scheme pays on a mandatory basis?

HM Revenue & Customs (HMRC) set conditions which need to be met in order to use scheme pays on a mandatory basis:

- Your annual allowance charge liability for the tax year is more than £2,000.
- The total amount of your pension savings in the pension scheme for that same tax year has exceeded the annual allowance (£60,000 for the 2024/25 tax year).
- You tell the scheme administrator that you wish to use scheme pays by the relevant deadline, this will normally be the 31 July of the year following the end of the tax year to which the charge relates.
- Your annual allowance charge liability under the pension scheme doesn't exceed the maximum. The maximum amount is the tax due on your pension savings that exceeded the annual allowance in that scheme alone (£60,000 for the 2024/25 tax year).

If you meet these conditions, once you have told your scheme administrator that you wish to use scheme pays then they become 'jointly and severally' liable, meaning that you are both responsible for paying the charge within the time limits.

What if I don't meet the conditions for mandatory scheme pays?

If you don't meet the conditions for mandatory scheme pays to apply, your scheme administrator may agree to pay your annual allowance charge liability on a voluntary basis. It's important to note that the processes and deadlines for voluntary scheme pays are different than mandatory, more details can be found on page 3.

Mandatory scheme pays

How much of the annual allowance charge will my scheme administrator pay?

If you are a member of just one pension scheme then you can ask the scheme administrator of that scheme to pay up to all of your charge for the tax year (provided the HMRC conditions are met).

If you are an active member of more than one pension scheme then you can ask the scheme administrator of any of your pension schemes to pay part of your liability. If your pension savings for the tax year are more than the annual allowance in that scheme alone the scheme must agree to scheme pays if the HMRC conditions are met.

Money Purchase Annual Allowance (MPAA) and Tapered Annual Allowance

In some circumstances you may incur an annual allowance charge as a result of exceeding either the MPAA* or the tapered annual allowance.

If you do, you may still be able to use scheme pays on a mandatory basis to pay the charge but the same HMRC conditions apply.

This means you have to exceed the full annual allowance rather than the money purchase or tapered annual allowance.

If, after calculating the charge using the full annual allowance, it is less than £2,000 then scheme pays will not be mandatory.

*Your scheme administrator will notify you if the money purchase annual allowance applies to you.

For example

Chloe pays £80,000 into her pension.

- The MPAA (£10,000 for the tax year 2024/25) applies to her which means that she has exceeded the limit by £70,000.
- Her personal circumstances mean that she has incurred a charge of £32,000.
- When measured against the full annual allowance (£60,000) she has exceeded the limit by £20,000 and her tax charge is £9,200.
- The maximum amount that her pension provider can pay using mandatory scheme pays is £9,200.
- She will have to pay the balance of £22,800 via her self-assessment tax return.

Jeremy pays £80,000 into his pension.

- He has a tapered annual allowance of £20,000 which means that he has exceeded the limit by £60,000.
- His personal circumstances mean that he has incurred a charge of £25,500.
- When measured against the full annual allowance he has exceeded the limit by £20,000 and his tax charge is £7,875.
- The maximum amount that his pension provider can pay using mandatory scheme pays is £7,875.
- He will have to pay the balance of £17,625 via his self-assessment tax return.

These examples are for illustrative purposes only.

You must tell your pension scheme administrator if you want the scheme to pay an amount of your annual allowance charge liability in return for an appropriate reduction in your pension savings. Most scheme administrators will be able to provide you with suitable notice forms. The notice must be in writing and must be signed and dated. If the notice is submitted electronically then you must confirm that you have personally submitted the notice.

The notice you give must contain the following information:

- title
- full name
- address (including postcode)
- national insurance number (or, if you do not have one, the reasons why you do not qualify for a national insurance number)
- the tax year to which the annual allowance charge liability relates
- the amount of the annual allowance charge liability that you want the scheme to pay on your behalf for that year
- confirmation that the amount of the liability you want the scheme to pay has been calculated at the proper rate

You must also confirm in the same notice that you understand that:

- your benefit rights in the pension scheme will have to be adjusted to take account of the tax that will be paid on your behalf by the scheme
- the notice cannot be revoked

Are there any deadlines for requesting use of mandatory scheme pays?

Yes, normally you must tell the scheme administrator of the scheme that you wish to use scheme pays by 31 July in the year following the end of the tax year to which the annual allowance charge relates. For example, if you want your scheme to pay your annual allowance charge for 2023-24 then you must send your notice to your pension scheme administrator no later than 31 July 2025.

Do I have to record it on my self-assessment return?

Yes, you will need to include the amount of the annual allowance charge on your tax return which should be submitted at the latest by 31 January of the year following that in which the tax year ended.

If your scheme has agreed to pay any part of the annual allowance charge then you will need to include this amount on your tax return.

If the scheme is only paying part of the charge you will be liable for paying any remaining charge and this amount should be paid by the normal self-assessment deadline.

Please see HMRC guidance on how to record scheme pays on your self-assessment: **https://www.gov.uk/guidance/who-must-pay-the-pensions-annual-allowance-tax-charge**

How will my pension scheme administrator take the charge from my pension scheme?

HMRC do not tell scheme administrators how or when to make a deduction in respect of the tax charge, other than to say that the adjustment made to your fund or entitlement to benefits must be just and reasonable, giving consideration to normal actuarial practice.

Each scheme administrator will have a process in place for operating scheme pays and making the appropriate deduction.

What if I'm taking my benefits?

If you are planning to take all benefits under a pension scheme in a particular tax year and you also want a scheme to pay an annual allowance charge for:

- the same tax year in which you are taking your benefits, and/or
- another tax year

you will need to give your scheme administrator a scheme pays notice for the tax year (or tax years) concerned before you can access the benefits.

Even though you are taking your benefits in the same year that the annual allowance charge is due to be paid by the pension scheme, the scheme administrator is still required to make a deduction to your benefits to reflect the tax paid.

Voluntary scheme pays

When can I use voluntary scheme pays?

Your scheme administrator may agree to pay your annual allowance charge liability on a voluntary basis. If they do this, you will remain liable for paying the annual allowance charge until it is paid.

This means that if, for any reason, your scheme administrator doesn't pay this within the required time limits, you will still be liable for the payment of the charge and may incur interest and penalties.

You will need to contact your scheme administrator for any forms or requirements that they may have. Aviva will consider the use of voluntary scheme pays depending on the circumstances.

Please note:

- You will need to report voluntary scheme pays on your self-assessment return - please see the question 'Do I have to record it on my self-assessment return? on page 3 for more information.
- The charge will be deducted in the same way as described in 'How will my pension scheme administrator take the charge from my pension scheme?' on page 3.
- If you are taking all benefits in the same tax year as making a voluntary scheme pays - please see the question 'What if I'm taking my benefits?' on page 3 for more information.

Are there any deadlines for requesting use of voluntary scheme pays?

Yes - the voluntary scheme pays must be paid in line with your normal self-assessment deadline of 31 January or you may incur late payment interest and penalties.

In order to meet the self-assessment deadline, your scheme administrator must include the voluntary scheme pays in the Accounting for Tax report it submits to HMRC for the preceding quarter ending on 31 December. Therefore, the scheme pays application form must be returned to Aviva by 31 December in the same calendar year as the end date of the tax year to which the charge relates.

Your scheme administrator will be able to provide further details on their requirements to meet these deadlines.

This guide is based on our interpretation of HM Revenue & Customs (HMRC) guidance and regulations. Decisions on the use of scheme pays should be based upon your own personal circumstances and we therefore recommend that you seek financial advice if you intend to use it.

Tax treatment is subject to change and depends on personal circumstances.

Further details on scheme pays from HMRC can be found at:
https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056400

We recommend that you contact your financial adviser before making any decisions relating to retirement. If you do not currently have a financial adviser you can find one at **www.unbiased.co.uk**. Please remember an adviser will charge for their services.

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