

SCHEME PAYS POLICY

December 2022

Hertfordshire Pension Fund

Local Government Pension Scheme

1. Introduction

The following details the Scheme Pays Policy for the Hertfordshire Pension Fund (“the Fund”) in relation to the Local Government Pension Scheme (the Scheme) which is administered by Hertfordshire County Council (the Administering Authority).

2. Purpose

Scheme Pays is a process which may allow part of your annual tax charge to be paid by the Hertfordshire Pension Fund, in exchange for a reduction in your pension benefits. There are two types of Scheme Pays, Mandatory and Voluntary, this Policy document relates to both.

This policy applies to all members of the Hertfordshire Pension Fund’s Local Government Pension Scheme.

This policy has been reviewed and is effective from 1 December 2022.

3. Mandatory Scheme Pays

Where a member has a tax charge as a result of breaching the annual allowance, they have a right to Mandatory Scheme Pays from the Hertfordshire Pension Fund, in relation to the portion of the tax charge attributable to the Fund in that year when **all** of the following criteria are met:

- The member has a Pension Input Amount within the LGPS in England and Wales exceeding the standard annual allowance for that tax year
- The aggregate tax charge due in respect of arrangements in all pension schemes exceeds £2,000
- An irrevocable election for Mandatory Scheme Pays is made by 31 July in the year following that in which the tax charge arose (i.e. for a tax charge arising from the year 2021/22 tax year the mandatory Scheme Pays election must be made by 31 July 2023) or before they retire, if earlier.
- The member’s full retirement benefits are not yet in payment.

For Mandatory Scheme Pays, the member must indicate to HMRC that they will be using Mandatory Scheme Pays on their self-assessment tax return by 31 January in the year following that in which the tax charge arose. However, the election to the Fund does not have to be made until 31 July, six months later, and the Fund then has until the following 14 February to pay the tax

Following receipt of a Mandatory Scheme Pays election a scheme member will have their pension reduced; the reduction would then be applied at retirement. The reduction is calculated in accordance with the guidance issued by the Secretary of State for

Communities and Local Government in conjunction with consultation by the Governments Actuary Department (GAD).¹

4. Voluntary Scheme Pays

Where a member incurs an annual allowance charge in a given tax year but does not meet the criteria for Mandatory Scheme Pays, or makes an election outside of the necessary timescales, the member's administering authority may choose, at their discretion, to discharge the tax liability and reduce the member's benefits by a corresponding amount. This is known as Voluntary Scheme Pays.

If your Pension input amount within the Local Government Pension Scheme is in excess of £40,000, Hertfordshire Pension Fund will accept requests for Voluntary Scheme Pays if you meet the following criteria:

- If you are on a salary in excess of £240,000
- If you have a tax charge of less than £2,000

Where a member's Pension Input Amount for the aggregate of arrangements in the LGPS exceeds the standard annual allowance but the member is subject to tapered annual allowance then the member only has a mandatory Scheme pays right in respect of excess above standard annual allowance as opposed to the amount above their tapered annual allowance. In this instance the Fund could elect to pay the full tax charge on a voluntary basis with a corresponding reduction.

The Fund **will not** accept applications for Voluntary Scheme Pays in the event that the member in question did not meet the 31 July deadline for applying for Mandatory Scheme Pays, and this failure to meet the deadline was not due to any administrative error or omission by Hertfordshire Pension Fund.

5. Process

The Local Pension Partnership Administration (LPPA) will contact any member who has a pension growth in excess of £40,000 by the 6th of October following the end of the tax year. This will ensure that all members affected are given the option of scheme pays so arrangements, where appropriate, to make the necessary payments to HMRC can be made. If once notified the scheme member chooses to use voluntary scheme pays and the criteria in section 4 above are met then LPPA will liaise with Hertfordshire Pension Fund to make payment to HMRC and the necessary deduction to the member's pension benefits.

¹ The members pension cannot be reduced below the level of their Guaranteed Minimum Pension (GMP) (if any), so the Fund may not be able to pay the full tax charge if the corresponding reduction to benefits would reduce the pension below GMP

6. Further Information

If you are subject to an annual allowance tax charge, you must notify HMRC that you have a tax charge by completing your self-assessment tax return by the statutory deadline. Completing a self-assessment tax return can be found on this link www.gov.uk/self-assessment-tax-returns. If you do not meet the statutory deadline, you may be subject to a penalty charge issued by HMRC.

LPPA Website - www.lppapensions.co.uk/
Helpdesk - 0300 323 0260

All scheme members considering any of the above options outlined in this policy are advised to take expert independent financial advice in order to plan and confirm pension implications.

Annual Allowance

There's information about Annual Allowance and Scheme Pays on the HMRC website at: www.gov.uk/tax-on-your-private-pension/annual-allowance

Tapered Annual Allowance Further information on how to calculate adjusted income and tapered annual allowance can be found at: www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance

Contact Us

If you have any queries regarding this policy document, please don't hesitate to contact the Fund from the contact details provided below:

Email – Pensions.Team@hertfordshire.gov.uk