

The Pension annual allowance and NHS Scheme Pays Election for GPs.

What is the pension annual allowance?

This is the limit of the total amount of benefits that you can build up in a defined benefit scheme (such as the NHS Pension scheme) and the total contributions that can be paid to a defined contribution scheme each year and attract tax relief.

The annual allowance from 2020/21 is £40,000 (increasing to £60,000 from 2023/24) except for high earners and those who have started to access their pensions. Higher earners (those with income above £200,000) could have their pension annual allowance reduced from £40,000 down to a minimum of £4,000 (£10,000 from 2023/24), depending on their level of income.

Individuals who have started to access their pensions could be limited to a £4,000 (£10,000 from 2023/24) annual allowance. This note is not aimed at those who have accessed their pensions. If this applies to you, please contact PEM to discuss your position.

If there is unused annual allowance in a tax year, it can be carried forward and used in the next three tax years.

What is the pension annual allowance charge?

If the total benefits you have built up in the year (for defined benefit schemes) and your total contributions (to defined contribution schemes) exceed the 2022/23 annual allowance limit and unused allowances available from the previous three tax years, a pension annual allowance charge is levied to essentially claw back some of the tax relief given.



How can I find out if I have incurred an annual allowance charge?

The NHS Pensions Annual Allowance Pension Savings Statement provides details of pension benefits each year. PEM request your statement each year so we can calculate if an annual allowance charge has been incurred.

Unfortunately, for GPs, the statements are not usually available before the tax returns need to be submitted. Nor are they usually available before the deadline for making a Scheme Pays election (31 July 2024 for the 2022/23 tax year).

Annual allowance statements are not sent to PEM, they are sent to the scheme member's home address, so please do send us a copy of the statement as soon as you receive it.

If you have also contributed to other pension schemes, we will need details of all pension contributions made and benefits that have built up in the tax year.

What is a Scheme Pays election?

A Scheme Pays election is a request for the annual allowance charge to be paid from your Pension fund.

A Scheme Pays election will permanently reduce your pension. As this will affect the ultimate benefits you will draw, independent financial planning advice should be sought before making a Scheme Pays election.

As you are unlikely to know whether you have an annual allowance charge before the election filing deadline, a draft or pre-emptive election can be made which can be updated when the NHS Pensions statement is available.

A pre-emptive Scheme Pays election extends the deadline for making an election and the opportunity to request any annual allowance charge to be paid from your Pension fund (please see details below).

Can I change a Scheme Pays election?

When we receive your 2022/23 NHS Pension annual allowance statement, we will calculate if a pension annual allowance charge has arisen.

If there is a charge relating to growth in your NHS Pension and you have made a pre-emptive Scheme Pays election, you have the option to update the election to pay the charge entirely or partly through Scheme Pays.

If there is a charge, which you decide to wholly or partly pay from your personal funds, the election can be reduced to a minimum of £1. If there is no charge, the election is reduced to £nil.

Are there any other related liabilities I need to know about?

It is not usually possible to calculate the annual allowance charge to include the figure on your tax return and pay the annual allowance charge on time (usually 31 January following the end of the tax year). HMRC will charge interest on the late payment of the annual allowance charge.

HMRC do not waive interest as you have had the benefit of the tax due (cash) rather than HMRC.

If there is an annual allowance charge and no Scheme Pays election, there will also be an increase in the payments on account you are required to make for the following tax year.

Can I avoid a pension annual allowance charge arising?

You should seek independent financial planning advice on this matter as this may involve leaving the NHS Pension scheme either temporarily or permanently.

What if I am planning to retire?

When you retire, your NHS Pension will crystallise and it will not be possible to make a Scheme Pays election retrospectively although annual allowance charges may arise on periods up to the date of retirement.

If you are thinking about retiring, it is essential that you contact us to discuss your options.

If you have any questions regarding any of the points raised above, please do get in touch with your usual PEM contact.



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The McCloud Case (Public Service Pensions Remedy).



The McCloud Case found that the transition of members into 2015 public sector pension schemes, including the 2015 NHS Pension scheme, breached age discrimination rules. Following a consultation, it has been decided that:

- Members will be treated as if they had been a member of their legacy scheme from 1 April 2015 to 31 March 2022 (the remedy period). Your legacy scheme is the scheme you were a member of prior to 1 April 2015. This is called roll back and this has taken place.
- All members transferred to the 2015 scheme on 1 April 2022.
- On retirement you will be presented with the benefits available should you have been a member under each of the two different schemes during the remedy period. You will then decide which of the two schemes to choose for that period. This is the deferred choice.

For members rolled back to their legacy scheme during the remedy period, these changes could lead to immediate financial and tax consequences relating to pension contributions and annual allowance tax charges.

Immediate financial and tax consequences re the roll back

With respect to the roll back, if pension contributions during the remedy period have been overpaid, the pension scheme will compensate the member for overpaid contributions adjusted for excess tax relief claimed on those contributions.

If pension contributions are insufficient, the member will need to pay the difference either in instalments or as a lump sum. Active members should receive tax relief in the usual way.

Pension annual allowance charges will need to be recalculated. If annual allowance charges reduce, compensation will be issued for the 2015/16 to 2018/19 tax years and a refund will be issued for the 2019/20 to 2021/22 tax years.

If pension annual allowance charges increase for the 2019/20 to 2021/22 tax years, HMRC will collect underpaid tax. However, the earlier years (2015/16 to 2018/19) are out of time so no extra tax will be collected.

HMRC are currently developing a service which can be used to report tax changes for the remedy period.

NHS Pensions are due to issue revised statements to members who have previously received an annual allowance statement by 6 October 2024. These are called Remediable Pension Savings Statement (RPSS).

If you receive a revised annual allowance statement (RPSS) please do forward it to PEM as soon as possible.

There should be an opportunity to seek compensation where there has been financial and taxation loss.

What you need to do

If you need to correct your tax position due to the remedy, you will be sent a Remediable Pension Savings Statement (RPSS).

When you receive your RPSS please send it to PEM and we will calculate if you have over or underpaid tax for any of the remedy period tax years.

Contingent decisions

A contingent decision is a decision you made or did not make because of actual or perceived implications of the 2015 Scheme reforms. In other words, you would have acted differently if you knew you'd be remaining in the legacy scheme for the remedy period. For example, a decision to opt out of the Scheme because you were not able to remain in the legacy scheme for the remedy period.

You may be able to reinstate remedy period service if you opted out of the NHS Pension Scheme because of the discrimination identified in the McCloud judgement.

Cost Claim Back Scheme

You can apply to claim back the costs of professional services or other financial losses that are due to the discrimination or application of the remedy.

For example, these could be costs incurred where you employed an accountant for advice about the effect of rollback on your tax position once you've received your remediable pension savings statement (RPSS).

Use a separate Cost Claim Back form for direct financial losses incurred from different providers. A claim for accountancy services used to complete an application via the HMRC Digital Service, is limited to £1,000 including VAT, per piece of advice.

A claim for IFA services to help you make your decision about your choice of pension benefits for the remedy period, is limited to £500 including VAT, per piece of advice.

If there's a reason not linked to the Remedy which means you owe money to the pension scheme and we've agreed to reduce what you owe, you can still apply to claim back costs covered by the Cost Claim Back Scheme.

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