

## Paying tax on pension savings over the Annual Allowance limit

If you save more towards your pension benefits than the current Annual Allowance, you may be liable to pay tax on these savings. If you have to pay tax, there are two ways to do this. You can either:

- pay the amount required direct to HM Revenue and Customs (HMRC); or
- use the 'Scheme pays' option, if you qualify.

Whichever option you choose, you need to inform HMRC of the action you are taking, and pay any tax charge you choose to pay direct to them by 31 January following the end of the tax year, in line with HMRC requirements. Under the 'Scheme pays' option, you also need to tell RPMI that you wish to use the option by:

- 31 July in the calendar year following the year in which the tax year ends; or
- the date when you start to receive your benefits if this is earlier.

For example:

For the 2012/13 tax year, the deadline for notifying HMRC of any tax liability would be 31 January 2014. The deadline for notifying RPMI that you wish to use the 'Scheme pays' option would be 31 July 2014 or your date of retirement if it is before 31 July 2014.

This leaflet explains:

- the background to the 'Scheme pays' option;
- how much tax you may have to pay;
- how HMRC would receive payment of the tax charge;
- when the 'Scheme pays' option can be used;
- how your benefits would be reduced;
- how to use this option; and
- where you can get more information about the 'Scheme pays' option.

### Background to the 'Scheme pays' option

Since the introduction of the Annual Allowance in 2006, members have had to be aware that they may be liable to pay an Annual Allowance tax charge on their pension savings if they save more in a tax year than the Annual Allowance limit allows.

The Annual Allowance for the 2011/2012 and following tax years is £50,000 and you may be liable to pay an Annual Allowance tax charge if your pension savings are more than:

- the Annual Allowance for the tax year; plus
- any unused Annual Allowance from the three previous tax years.

**If you are affected by this allowance, it is your responsibility to report the amount of pension savings you make over the allowance to HMRC as part of their Self Assessment process.**

**To find out more about the Self Assessment process please visit the HMRC website at [www.hmrc.gov.uk/sa](http://www.hmrc.gov.uk/sa) or scan this QR code with your Smartphone.**



**How much tax you may have to pay?**

The Annual Allowance tax charge will be based on the rate of tax on your top slice of income. For example:

If you had pension savings of £60,000 in a tax year, and no unused allowances from the three previous tax years, the calculation would be:	Pension savings – Annual Allowance limit = taxable pensions savings  <b>£60,000 - £50,000 = £10,000</b>
If you currently pay tax at the rate of 40% on your top slice of income, your Annual Allowance tax charge would be worked out as:	Taxable pensions savings x Income Tax rate = Tax payable to HMRC  <b>£10,000 x 40% = £4,000</b>

As the amount of tax payable may not be manageable from your current income, the government introduced legislation to allow you to meet these tax charges from your pension benefits if the charges are above £2,000. If you choose to do this, the legislation requires that your Scheme benefits are reduced appropriately to reflect the tax paid by the Scheme.

**How HMRC would receive payment of the tax charge?**

If you wish to use the ‘Scheme pays’ option, and are eligible to do so, the Scheme administrator (RPMI) will pay all (or part) of your tax charge (in respect of your pension savings under the Scheme) from the assets of your section of the Scheme. Both you and RPMI will be ‘jointly and severally liable’ for the tax charge which is due for payment to HMRC. This means that RPMI will pay HMRC the tax you have asked them to pay on behalf of the Scheme but you will have to report this amount in your Self Assessment tax return. You will then remain liable for any element of the tax charge not paid by RPMI.

You will be liable to pay any part of the Annual Allowance tax charge that is not being met by the ‘Scheme pays’ option.

**When the ‘Scheme pays’ option can be used?**

RPMI is obliged to pay the Annual Allowance tax charge for you out of your pension savings in the Scheme if the following two criteria are met:

- your total tax charge in respect of a tax year is more than £2,000; and
- the amount of your pension savings in the Scheme in that tax year was more than the Annual Allowance.

If you meet these criteria, you can notify RPMI and opt for the Scheme to pay on your behalf all, or part of, the amount of the tax charge which has arisen in respect of your pension savings under the Scheme in that tax year. The process and the form for making this notification is covered later in this guide and the Trustee will then reduce your benefits as explained in the following section.

### How your benefits would be reduced?

1.	<p>Funds from any additional voluntary contribution (BRASS or AVC Extra) you hold in the Scheme would be used in the first instance to pay the tax due.</p> <p>If you have more than one type of fund available, funds will be used by the Trustee so that any surrender penalties are minimised for you.</p>		
2.	<p>If you don't have any additional voluntary contribution funds, or they are not enough to pay the tax due, a defined contribution account, known as a 'notional negative account' will be held to offset against your benefits at retirement.</p> <p>When the Scheme becomes liable to pay the tax charge the 'notional negative account' would be opened with a negative value equal to the amount of the tax charge payable less any existing additional voluntary contribution funds.</p> <p>At retirement, the value of this account (plus interest, in line with returns achieved on the default BRASS investment fund plus 0.2% per annum) would be met by a combination of additional voluntary contribution funds built up by retirement, Scheme lump sum and Scheme pension.</p> <p>If Scheme pension needs to be taken into account to settle the 'notional negative account', Scheme pension will be converted to lump sum on a 12:1 basis. For example:</p>		
	'Notional negative account' value	£21,000	
	<b>less</b> Additional voluntary contribution funds	£3,000	
	<b>less</b> Scheme lump sum	£15,000	
	Remaining 'Notional negative account' value after using up AVC funds and Scheme lump sum to be met from Scheme pension	£3,000	
	Scheme pension	£10,000	per annum
	To provide £3,000 additional Scheme lump sum from Scheme pension	$£3,000 \div 12 = £250$	
	Reduced Scheme pension	$£10,000 - £250 = £9,750$	per annum
<p><b>Please note:</b> There are no administration charges for using the 'Scheme pays' option.</p>			

**How to use this option?**

Should you wish to use this option to pay an Annual Allowance tax charge, you must notify RPMI by the earlier of:

- 31 July in the calendar year following the year in which the tax year ends (or 31 December 2013 in respect of the 2011/12 tax year only); and
- the date when you start to receive your benefits if this is earlier.

For example:

For the 2012/13 tax year, the deadline for notifying HMRC of any tax liability would be 31 January 2014. The deadline for notifying RPMI that you wish to use the 'Scheme pays' option would be 31 July 2014 or your date of retirement if it is before 31 July 2014.

The legislation requires you to provide RPMI with certain specific information. To make sure all of the legal information is provided, we have prepared a form for you to use when notifying RPMI. A copy of the form is provided at the end of this leaflet. You would need to print a copy, complete it and send it so that RPMI receives it within the specified timescale, as explained above. RPMI would then contact you to acknowledge receipt of the notification.

Once you have submitted a notice, please note that it cannot be withdrawn. However, should your liability to the Annual Allowance tax charge change, due to unforeseen circumstances, the notice can be replaced by a further notice.

**Where you can get more information about the 'Scheme pays' option**

If you would like further information about the 'Scheme pays' option, please contact the Helpline on 0800 2 343434.



Alternatively, details about HMRC's rules relating to the operation of the 'Scheme pays' option are available on their website at:

<http://www.hmrc.gov.uk/pensionschemes/annual-allowance/scheme-member-guide.pdf>



All read as you need information is available on the railways pensions website [www.railwaypensions.co.uk](http://www.railwaypensions.co.uk) or from the Helpline on 0800 2 343434:

- A guide for members of BRASS.
- A guide for members of AVC Extra.
- A guide for members on maternity, paternity, parental or adoption leave.
- A guide for members on working part-time.
- A guide for members on divorce or dissolution.
- A guide for members applying for incapacity benefits.
- A guide for members if your pay has been restructured.
- Transfer-in
- A guide for members transferring from one section of the Scheme to another.
- Welcome to the Team.
- A guide for members on tax limits on benefits and contributions.
- Will my pension savings exceed the Annual Allowance?
- Your Protected Rights.

## 'Scheme pays' notice

Your details	
Title:	
Full name:	
Home address:	
Postcode:	
Pension Reference Number:	
National Insurance number:	
The section of the Railways Pension Scheme (RPS) you are currently a member of:	

The Annual Allowance tax charge you require the RPS to pay	
Tax year in which the liability to the annual allowance tax charge arose:	
Are you expecting to take your benefits from the RPS (including any other sections you are in) before the end of the above tax year?	YES / NO (please delete as applicable)
If the above answer is "YES", on what date do you plan to take your benefits from the RPS?	
Amount of Annual Allowance tax charge that you want the Scheme to pay in respect of the above tax year:	£ <small>(This cannot be more than the tax due in respect of pension savings under the RPS in the tax year, as the Scheme cannot pay tax in respect of savings in any other pension scheme.)</small>

Certification by you	
<p>I confirm that the amount of Annual Allowance tax charge that the RPS is to pay in respect of the above tax year has been calculated at the correct relevant rate (as described in section 237B(4) of the Finance Act 2004) and that my total Annual Allowance tax charge for that year exceeds £2,000.</p> <p>I understand that this notice cannot be revoked by me.</p> <p>I understand how my future benefits to be paid from the above named section of the RPS will be adjusted to take account of the amount of tax paid (as set out in this notice) by the RPS on my behalf.</p>	
<b>Signature:</b>	<b>Date:</b>
<b>Full name:</b> (Please print)	

**Once completed, please send the form to: RPMI, PO Box 300, Darlington, DL3 6YJ**

<p><b>Important note:</b> You should receive an acknowledgement from RPMI within 28 days to confirm that your wishes have been recorded. If you do not receive an acknowledgement within 28 days, please contact RPMI immediately on 0800 2 343434.</p>
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