



Havering
L O N D O N B O R O U G H

HAVERING PENSION FUND

Voluntary Scheme Pays Policy

April 2021

Havering Pension Fund

Policy regarding Voluntary Scheme Pays in respect of members of the Havering Local Government Pension Scheme whose pension savings breach the Annual Allowance limit set by HMRC.

Purpose

Where a member incurs an annual allowance charge but does not meet the criteria for Mandatory Scheme Pays Havering Council may, in its role as Administering Authority, 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. The circumstances in which Voluntary Scheme Pays can apply are wide ranging and it is good practice for administering authorities to set out a policy regarding how they will exercise this discretion in a way that is fair to members without incurring undue risk to the fund.

Background

Annual Allowance

The Annual Allowance is the amount by which the value of a members pension benefits may increase in any one year without incurring a tax charge. If the value of the pension savings in any one year (including pension savings with other LGPS Funds or outside of the LGPS) are in excess of the annual allowance, the excess will be taxed as income. The annual allowance is set by HM Treasury and is currently £40,000.

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 Havering Pension Fund when all of the following criteria are met:

- The member's Annual Allowance tax charge exceeds £2,000.
- The growth in the member's benefits within the LGPS in England and Wales exceeds the standard Annual Allowance.
- An election for Mandatory Scheme Pays is received by the Fund by the relevant deadline.
- The member's full retirement benefits from the Fund are not yet in payment.

Where a member meets all of the above criteria the Havering Pension Fund must pay the tax to HMRC on behalf of the member. The Fund recovers the charge via a permanent reduction to the member's benefits, calculated following guidance from the Government Actuary's Department.

Voluntary Scheme Pays

Havering Pension Fund may, at their discretion, agree to pay some or all of an annual allowance charge on a member's behalf if all of the above criteria are not met. This is referred to as Voluntary Scheme Pays and the approach adopted by Havering is detailed in the policy section.

The list below shows some situations in which a member may have incurred an Annual Allowance tax charge but does not have an entitlement to Mandatory Scheme Pays. (This list is not intended to be exhaustive):

- The member is subject to the Tapered Annual Allowance* but does not exceed the Standard Annual Allowance.
- The member met all the other criteria for a Mandatory Scheme Pays election, but did not make the election by the 31 July deadline.
- The member has not exceeded the Annual Allowance based on their pension benefits in the LGPS in England and Wales, but across all pension arrangements they have exceeded the Annual Allowance and the total tax charge is more than £2,000.
- The member's tax charge is less than £2,000.

* The standard annual allowance is reduced for higher earners. For those with annual income above £240,000, the annual allowance will reduce by £1 for each £2 they earn above £240,000. This will give these individuals a personal annual allowance limit known as a tapered annual allowance.

Havering Pension Fund's Voluntary Scheme Pays Policy

The London Borough of Havering Pension Committee has approved the use of Voluntary Scheme Pays under the following circumstances:

- The member's pension savings within the London Borough of Havering Pension Fund is subject to the tapered annual allowance **and**
- The tax breach is only as a result of pensions savings in the London Borough of Havering Pension Fund and not from the growth in multiple pension schemes **and**
- The tax charge exceeds £2,000 **and**.
- The application is received in writing by London Borough of Havering Pension Fund by 30 November in the tax year following the year to which the tax charge relates.

Late elections, or those with a tax charge of less than £2,000 will be considered for Voluntary Scheme Pays requests with delegated authority given to the Head of People Transactional Services to consider on a case by case basis.

The policy can also be found in the Administering Authorities Discretions Policy, Section 10 Discretionary policy under the Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011.

Ownership

The policy lead is the Pension Projects and Contracts Manager, who will be responsible for the review of the policy as and when there are regulatory, audit or legislative changes.

The policy is effective from 1 April 2021.