

Status of Report:

Public

Agenda Item:

6

Meeting: Local Pensions Board

Date: 28th September 2017

Subject: Impact of Annual Allowance Changes

Report By: The Scheme Manager

Author: Adam Stretton (Area Manager Finance and ICT)

For: Information

1. Purpose

To update the Board on the changes to the annual allowance and inform of the Scheme Manager's decision to agree a discretion to use Voluntary Scheme Pays for scheme members.

2. Recommendations

The Board is asked to note the Scheme Manager's decision to use Voluntary Scheme Pays for affected members of the Pension Scheme.

3. Executive Summary

3.1. Following a national review of pensions, the Public Services Pensions Act 2013 required the Authority to set up a Local Pension Board. The Board is responsible for assisting the Scheme Manager in ensuring the effective governance and administration of the Firefighter Pension Schemes.

3.2. The Pension Section has a statutory duty to write to scheme members who breach the annual allowance by the 6 October each year, e.g. 2016/17 breaches will be written to by the 6 October 2017.

4. Report Detail

ANNUAL ALLOWANCE – MANDATORY SCHEME PAYS

4.1. The annual allowance is the annual limit on pension savings that a scheme member can make in each year which will receive tax relief. If the value of pension benefit grows by more than this allowance, then the excess amount may become subject to a tax charge. Currently the annual allowance is £40,000.

4.2. The Pension Section has a statutory duty to write to scheme members who breach the annual allowance by the 6 October each year, e.g. 2016/17 breaches will be written to by the 6 October 2017.

4.3. Scheme members who breach the annual allowance have options to pay the tax charge under the mandatory scheme pays rules. The options are set out below:

- Make payment of the tax directly to HMRC, or,
- For tax charges over £2,000 opt for mandatory scheme pay. This means the Pension Fund pays the tax on the member's behalf but then reduces the member's future pension benefits. This is known as the "annual allowance debit".
- For tax charges under £2,000 the member has to make payment to HMRC directly.

TAPER ANNUAL ALLOWANCE – VOLUNTARY SCHEME PAYS

4.4. In tax year 2016/17 HMRC introduced a new annual allowance, this is known as the tapered annual allowance, and is aimed at higher earners. Scheme members with annual income above £150,000 have their Annual Allowance reduced by £1 for each £2 they earn above £150,000. The maximum reduction is £30,000, which means that people with annual income of £210,000 or above have an Annual Allowance reduced from £40,000 to only £10,000.

4.5. Scheme members who breach the tapered annual allowance have options to pay the tax charge under the voluntary scheme pays rules;

- Make payment of the tax directly to HMRC, or,
- Opt for mandatory scheme pays for the non-tapered breach
- But the member cannot request voluntary scheme pays on the tapered breach unless the Pension Fund administrator allows this.

4.6. This change has added additional complexity to an already complex area of pension taxation. To try and simplify the process and to assist scheme members with a tapered annual allowance breach, it is proposed that the Leicestershire Pension Fund allows voluntary scheme pays but only in the circumstances shown below;

- If the total tax charge is over £2,000. If the total tax charge is under £2,000 the member will have to pay the tax to HMRC directly (as they do under mandatory scheme pays).
- If the tapered breach is from the member's own Leicestershire Pension Fund Scheme benefits. If the tax charge is due to other pension benefits the member has elsewhere, then voluntary scheme pays is not available.

4.7. If the Leicestershire Pension Fund did not allow voluntary scheme pays, some higher earners with a tapered annual allowance breach could incur significant tax charges that would have to be paid directly to HMRC. Derbyshire and

Nottinghamshire are also seeking approval from their Authorities to apply voluntary scheme pays discretions.

- 4.8. HMRC have also introduced different timelines for payment of the tax charges between mandatory and voluntary scheme pays. This adds further complexity so it is proposed that the Leicestershire Fund deals with all breaches using the earlier of the two deadlines, this being the voluntary scheme pays.
- 4.9. The Scheme Manager has agreed to allow voluntary scheme pays as outlined in this report.

5. Report Implications / Impact

5.1. *Legal (including crime and disorder)*

- a) There are no legal implications arising directly from this report.

5.2. *Financial (including value for money, benefits and efficiencies)*

The financial implications are set out in full within this report.

5.3. *Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)*

- a) The recruitment and promotion to senior management roles could be adversely affected if successful candidates were required to pay a significant tax charge.

5.4. *Staff, Service Users and Stakeholders (including the Equality Impact Assessment)*

- a) The HR Department are fully involved in pension issues to ensure that any human resource implications are taken into account.

5.5. *Environmental*

None.

5.6. *Impact upon Our Plan Objectives*

- a) One of the CFA's corporate aims is achieving excellence in managing our Service. The work supports the efficient and effective administration of the fire pension schemes. This will help to manage any risks associated with process failure or claims of maladministration

6. Background Papers

None.

7. Appendices

None.