

Scheme Pays

Scheme Pays is a process that allows an individual to pay an annual allowance charge from their pension scheme. The pension scheme pays the annual allowance charge direct to HMRC and the tax charge is taken out of the individual's pension.

This factsheet explains who can use the facility, the deadlines for applying and how a Scheme Pays election will affect your benefits. You will need to notify the trustee by 15 December¹ if you wish USS to pay an annual allowance charge on your behalf in order to avoid any late payment penalties or interest imposed by HMRC.

Background

Normally, an individual will need to pay an annual allowance (AA) charge if their pension savings in a tax year exceed the AA limit that applies to them and if they don't have sufficient unused allowance to carry forward from the previous three tax years. An AA tax charge will apply to any savings above the limit. For more information on the AA, please refer to our separate [Annual Allowance Factsheet](#).

Scheme pays is a process that allows an individual to pay an AA charge from their pension scheme. This means the scheme pays the AA charge direct to HMRC on their behalf, and the tax charge is taken out of their pension fund. There are certain conditions that need to be met for an individual to have the right to use this facility. It's possible for high-earning members of USS to generate significant AA charges, and therefore, Scheme Pays may be a good option for many members who would otherwise have to pay a tax charge out of their own savings or other funds.

If you apply for Scheme Pays, your request will be satisfied by using any funds that you've built up in the USS Investment Builder in the first instance. If those funds are insufficient, then a pension reduction will be applied to your benefits in the USS Retirement Income Builder. Should you incur an AA tax charge, you should think carefully about the option to use Scheme Pays.

The trustee does not generally allow Scheme Pays where a member's tax charge is less than £1,000. Please refer to the frequently asked questions set out below for more information about the conditions that apply to Scheme Pays.

What if I have exceeded the AA?

If you've exceeded either the standard AA or your own personal 'tapered AA' and you do not have any or enough carry forward to offset against the charge, you may incur a tax charge.

Information on AA, tapered AA and carry-forward can be found in USS's [Annual Allowance Factsheet](#).

If you believe you are liable to an AA tax charge, you should seek your own tax advice to ensure you are compliant with HMRC reporting regulations, such compliance may currently be achieved through completion of a self-assessment tax return and the additional form SA101. If you don't normally complete a self-assessment tax return, you'll need to register with HMRC to complete one. [HMRC has produced a help sheet](#) which you may find useful.

If you've exceed the AA but you have enough carry forward to cover the excess, then you don't need to provide this information through a self-assessment tax return. However, you should keep a detailed record in case HMRC ask you for more information in the future.

¹ You can notify the trustee after 15 December but you may incur a late payment penalty or interest imposed by HMRC.

How can the charge be paid?

Scheme Pays is a tax-efficient way of paying an AA charge, as you will already have received tax relief on your contributions to USS. Paying your AA charge using Scheme Pays also has the effect of reducing your benefits tested against HMRC's lifetime allowance (please refer to USS's **Lifetime Allowance Factsheet** for more details).

Alternatively, you can choose to settle the charge yourself from your own savings or, if you're retiring and taking a tax-free lump sum, you could put aside some of the tax-free cash sum to settle the tax charge.

When can I use Scheme Pays?

You can use Scheme Pays if:

- The value of your benefits built up over a tax year (i.e. 6 April to 5 April) for AA purposes is greater than the standard AA; and/or
You are subject to the tapered AA and the value of your benefits built up over a tax year for AA purposes are greater than your tapered AA;
- Your overall AA tax charge is more than £1,000; and
- The tax charge is in relation to benefits built up in USS.

If these conditions are met, you can ask the scheme to pay the charge for you, with a corresponding deduction to your benefits.

How much can I ask the scheme to pay?

If you have exceeded the AA as a result of benefits built up in two or more pension arrangements, the trustee will only pay a tax charge in relation to any excess allowance built up in USS.

You can pay part of the charge yourself, with the trustee covering the remainder, or you can ask the trustee to pay the whole charge provided the amount you ask USS to pay is at least £1,000.

How do I apply for Scheme Pays?

You will need to notify the trustee by 15 December, of the tax year in which the AA charge was incurred, of the AA tax charge you wish the trustee to pay on your behalf. You will then need to complete a self-assessment tax return by 31 January following the tax year in question; and confirm to HMRC the amount of any AA charge which is to be paid by the scheme.

If you miss this target date, the trustee may still process your Scheme Pays. However, you may be subject to late payment penalties or interest which may be imposed by HMRC. You will be solely liable for any interest and penalties and must account to HMRC for them.

To notify the trustee that you would like to use Scheme Pays, complete and return the **Scheme Pays election form**. If you have contributed to the USS Investment Builder you'll need to log on to **MyUSS.co.uk** to obtain your current fund value to include on your form. If your USS Investment Builder fund is less than the value of your tax charge, or you don't have any funds in the USS Investment Builder, you can use the **Scheme Pays modeller** to estimate the deduction that will apply to your USS Retirement Income Builder benefits. Please see the section below 'How is my reduction calculated?' for more information.

It is your responsibility to ensure that the amount of the AA tax charge is correctly calculated. The trustee will not be in a position to calculate your tax for you. You should also bear in mind that a Scheme Pays notification cannot be cancelled, but it may be amended.

For self-assessment purposes the USS pension scheme tax reference number is **00330004RR**.

In previous years the deadline for notifying USS was the 31 July following submission of the self-assessment. Why has this deadline now been brought forward to 15 December?

Prior to the 2016/17 tax year, the trustee was able to offer a facility known as ‘Mandatory Scheme Pays’ to pay AA excess tax charges. Members had until 31 January to notify HMRC of Mandatory Scheme Pays (via their self-assessment return) but didn’t have to let the trustee know until 31 July following the self-assessment deadline. However, since the introduction of the tapered AA in the 2016/17 tax year, members who are subject to the AA taper can no longer use Mandatory Scheme Pays to pay their full tax charge. Mandatory Scheme Pays would cover the excess over the standard AA (£40,000 at the time of writing) but members would have to pay the excess over their tapered AA from their own savings.

As a result, the trustee is now offering Voluntary Scheme Pays. Under this arrangement the trustee can pay the full amount of any AA excess tax charge. However, the deadline imposed by HMRC, by which the trustee has to pay a HMRC tax charge via Voluntary Scheme Pays, is much stricter. We therefore require notification earlier than in previous years.

If you would still like to use Scheme Pays to pay part of your AA excess tax charge only, then please complete and return the **Scheme Pays Election form** which you will find on our website. Please do this by 31 July following the submission of your self-assessment form.

Can I use Scheme Pays if I am due to retire or over normal pension age (currently 65)?

Yes. However, you must notify the scheme of your intentions before you draw any benefits.

In practice, if you have requested a retirement quotation from USS it will include the value of your benefits for AA purposes for the ‘pension input period (PIP)’ in which you retire (see USS’s **Annual Allowance Factsheet**), and also the previous year if this information has not already been provided. If you determine that your AA tax charge for the PIP in which you retire will exceed £1,000, then you can give notice to the scheme to pay the charge on your behalf.

It’s important that you notify the trustee of your intention to apply for Scheme Pays before retiring; so that the appropriate deduction can be applied before your USS benefits are brought into payment. You’ll lose the opportunity to rely on Scheme Pays if you don’t notify the trustee before your benefits are put into payment. The ‘notice of intention to elect for Scheme Pays’ form will be included in the retirement pack that USS sends you.

When you come to retire, it’s possible that you won’t know for certain what your taxable earnings are for the PIP in question. Therefore you may not know what your AA tax liability is until the end of the tax year. If this is the case, you can submit a Scheme Pays notice to the trustee shortly before your retirement on the basis of the information that’s known to you at the time.

You will need to inform HMRC of any amendments once your taxable earnings for the year are known.

How is my reduction calculated?

All members who are eligible to use Scheme Pays will be able to have their AA tax charge met by a reduction to their funds in the USS Investment Builder in the first instance. A disinvestment will be made from your USS Investment Builder by selling enough units (taken proportionately from each fund and contribution stream) to cover the charge.

The disinvestment process can’t be completed on the same day as our request for funds. Since your fund value changes on a daily basis, we are unable to calculate the exact amount of units required to cover your tax charge. Therefore we disinvest 10% more than we originally calculate on day 1 of the disinvestment process to allow for any movements in fund value. Once the fund is returned to us, any amount in excess of your tax charge will be reinvested in the USS Investment Builder. You will be able to see these transactions, once the process has been completed, by **logging in to MyUSS**.

If there is still a balance to be met, or you do not have any benefits in the USS Investment Builder, then a reduction will be applied to your benefits in the USS Retirement Income Builder. How this is done depends on your circumstances:

A: If you ask the trustee to pay your tax charge:

- At the point of retirement; or
- As you're approaching retirement; or
- If you're age 65 or over.

In these circumstances, the reduction can be made to your pension or lump sum from the USS Retirement Income Builder (but not a combination) – if you opt for it to be deducted from your pension (i.e. a pension reduction), it will be calculated using the commutation factors applicable at retirement / the calculation date. We use the same factors that are used if you wish to change pension into extra cash or vice versa. The AA tax charge would then be deducted from your pension as a regular amount.

Should you wish to investigate this option and receive a quotation of the estimated reduction to your annual pension, **please let us know**.

OR

B: If you ask the trustee to pay your tax charge:

- When you're under the age of 65; or
- You're not contemplating retirement.

In these circumstances, a reduction is made to your standard benefits (lump sum and pension) equal in value to the tax charge, calculated using the current cash equivalent transfer value basis. If you would like an estimate of the reduction to your annual pension and lump sum, please use the **Scheme Pays modeller**.

Is it possible to have multiple Scheme Pays reductions?

Yes, it is possible that you could trigger the AA charge more than once. Any charges paid from your USS Investment Builder funds will be deducted following your Scheme Pays request each year. Any charges paid from your USS Retirement Income Builder benefits will be recorded as a pension reduction each year, and the total of these reductions will be deducted from your benefits at retirement (lump sum and/or pension, as appropriate).

Will a Scheme Pays disinvestment from the USS Investment Builder affect any benefits which may be payable to my beneficiaries?

If you die whilst in service, or retire on incapacity grounds, then the benefits you or your beneficiaries will receive may be affected.

Death-in-service and incapacity benefits are based on your full salary, rather than limited to the USS Retirement Income Builder's salary threshold. In return for providing uncapped benefits, we reclaim part of your USS Investment Builder fund, as follows:

- Normal contributions paid by you and your employer in excess of the salary threshold; and,
- Your employers 'match' contributions (currently 1%) if you have taken the match.

The reclaiming of USS Investment Builder funds does not apply to your own match contributions and any additional contributions paid above the match (including any optional additional employer contributions), or any transfer payment credited to your USS Investment Builder pot. If you have previously used some of your USS Investment Builder funds to pay a scheme pays charge (meaning we are therefore unable to reclaim them when providing uncapped benefits), a corresponding deduction will be made to your death/ill-health benefits (see USS's **Bereavement Benefits Factsheet** for more details).

If you die as a deferred member of the scheme, the benefits payable from your USS Investment Builder pot will be based on the remaining fund value and will not include any amount disinvested for the tax charge.

Financial advice

The trustee recommends that you consider seeking financial advice on your options. If you need advice on tax matters, we suggest you contact a tax or financial adviser. You can find an independent financial adviser through the following website: www.unbiased.co.uk. Please be aware that you may be charged a fee for any advice.

There's more information on our website about where you might seek financial advice: www.uss.co.uk.

This publication is for general guidance only. It is not a legal document and does not explain all situations or eventualities. USS is governed by a trust deed and rules and if there is any difference between this publication and the trust deed and rules the latter shall prevail. Members are advised to check with their employer contact for the latest information regarding the scheme, and any changes that may have occurred to its rules and benefits. Any references to the trustee or USSL in this document means Universities Superannuation Scheme Limited, the trustee company of Universities Superannuation Scheme and any references to the scheme or USS means Universities Superannuation Scheme. As you review this information, please keep in mind that past performance is not necessarily a guide to future performance. The value of investments may go down as well as up and the return on your investments is not guaranteed.