

Scheme Pays

Scheme Pays is a facility available to members which allows you to request that USS pays an annual allowance charge on your behalf, in return for a corresponding reduction to your pension benefits.

This factsheet explains who can use the facility, the deadlines for applying, and how a Scheme Pays election will affect your benefits.

Introduction to Scheme Pays

The government introduced Scheme Pays when the annual allowance (“AA”) was reduced to £50,000 from April 2011. It is a facility which, if you exceed the AA, allows you to request that the Scheme Pays the AA tax charge on your behalf with an appropriate reduction then made to your benefits. It is 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.

With the introduction of the USS Investment Builder, a Scheme Pays request will be satisfied initially by using any funds built up in that section of the scheme, and (if those funds are not sufficient) then by way of a pension debit being applied to 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.

USS does not extend Scheme Pays to cases whereby the tax charge payable is less than £2,000.

The details of Scheme Pays are set out in the frequently asked questions below.

What if I have exceeded the annual allowance?

If you have exceeded the AA, and you do not have any or enough “carry forward” to use, you will incur a tax charge.

Information on carry-forward can be found in the Annual Allowance factsheet.

You are responsible for providing information to HMRC using a self-assessment tax return. If you don’t normally complete a self-assessment tax return, you’ll need to register with HMRC to complete one. HMRC has a helpsheet which you may find useful, which you can find by searching for “HS345” on www.hmrc.gov.uk.

How can the charge be paid?

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.

Alternatively, the government has decided that members of registered pension schemes, such as USS, will be able to ask the scheme to pay an AA tax charge on their behalf in return for a reduction to benefits. This is called ‘Scheme Pays’. Although this sounds simple in theory, in practice there is a lot to consider.

When can I use Scheme Pays?

You can use Scheme Pays if:

- The value of your benefits built up over a Pension Input Period (“PIP”) (from 6 April 2016 onwards, this is aligned to the tax year ie 6 April to 5 April) for AA purposes is greater than £40,000 (please see the Annual Allowance factsheet for more details); and
- Your overall AA tax charge is more than £2,000.

If these conditions are met, you can ask the scheme to pay the charge for you, with a corresponding deduction made 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, USS will only pay a tax charge in relation to any excess allowance built up in this scheme.

The amount of tax charge you wish USS to pay on your behalf may be more or less than £2,000. You can pay part of the charge yourself, with USS covering the remainder or, you can ask USS to pay the whole charge.

How do I apply for Scheme Pays?

You will need to complete a self-assessment tax return by no later than 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. You will then have until the following 31 July - or retirement if earlier - to notify USS of the AA tax charge to be paid on your behalf.

It is your responsibility to ensure that the amount of the AA tax charge is correctly calculated. The scheme 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.

Should you decide to pay part of the AA tax charge, and the remaining amount of the scheme's liability is less than £2,000, then you will need to write to USS confirming that your total AA charge is over £2,000 (by providing a copy of your invoice from HMRC).

If your AA tax charge increases, you can submit a further notice to the scheme, requesting payment of an additional annual allowance tax charge through Scheme Pays. The requirements for this notice are that your benefits have not yet been put into payment and that the notice is received no later than 31 July following the end of the four year period that began on the last day of the relevant tax year.

Example: If you exceeded the AA in the 2012/13 (as a result of USS pension accrual), you would be required to notify the scheme by 31 July 2014 that you want to use Scheme Pays and the latest date for submission of an amendment to Scheme Pays (presuming you didn't retire before then) would be 31 July 2017.

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

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

The answer to this is yes, however, your notice must be given to the scheme before your benefits are drawn, rather than the July after your self-assessment return was due.

In practice, if you have requested a retirement quotation from USS it will include the value of your benefits for AA purposes for the PIP in which you retire, and also the previous year if this information has not already been issued. If you calculate that your AA tax charge for the PIP in which you retire will exceed £2,000, or perhaps the year prior, then you can give notice to the scheme to pay the charge on your behalf.

As mentioned, you must submit your notice to USS 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 USS before your benefits are put into payment. The notice of intention to elect for Scheme Pays will be included in the USS retirement forms.

It's possible that you won't know for certain what your AA tax liability is, for the PIP in which you retire, until the end of the tax year – and therefore after your retirement date – as you will need to know what your taxable earnings were for the year. If this is the case, you can submit a Scheme Pays notice to USS 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. If there is still a balance to be met (or if you have no benefits in the USS Investment Builder), there would be a reduction to your benefits from the USS Retirement Income Builder and how this is done depends on your circumstances, as follows:

A: If you ask USS 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 (ie a pension debit), 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 contact USS.

OR

B: If you ask USS 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 a quote showing the estimated reduction to your annual pension and lump sum, please use the Scheme Pays calculator on www.uss.co.uk.

Is it possible to have multiple Scheme Pays debits?

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 debit each year, and the total of these debits will be deducted from your benefits at retirement (either lump sum or pension, as appropriate).

Will a Scheme Pays debit from the USS Retirement Income Builder affect any benefits which may be payable to my beneficiaries?

Only your pension/lump sum will be reduced as a result of a Scheme Pays pension debit. Any beneficiaries' pensions/lump sums will remain unaffected.

Financial advice

USS recognises that you may wish to seek 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 IFA through the following website: www.unbiased.co.uk. Please be aware that you may be charged a fee for any advice.

Our website also has more information on financial advice. To find out more about financial advice, visit the USS website www.uss.co.uk.

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