

Committee name	Pensions Committee
Officer reporting	Yvonne Thompson-Hoyte, Finance
Papers with report	1. Draft Hillingdon Scheme Pays Policy 2. LGPS Annual Allowance Fact sheet

HEADLINES

Hillingdon Council as the Administering Authority of the Hillingdon Pension Fund is required under Section 237B of the Finance Act 2004, to pay the tax charge to HMRC for scheme members that meet the criteria for 'Mandatory Scheme Pays' (MSP). The Council may also at its discretion extend to offer to those who do not meet the MSP criteria but have incurred a tax charge under a voluntary scheme pays arrangement. This report sets out the draft policy on voluntary scheme pays and seeks the approval of the Pensions Committee for implementation.

RECOMMENDATIONS:

That the Committee:

- 1. Approve the Scheme Pays Policy for implementation.**

BACKGROUND

The Annual Allowance (AA) is the amount by which the value of a scheme members' pensions benefit may increase in any one year without having to pay a tax charge. This is in addition to any income tax paid on pensions once it is in payment. If the value of pension savings in any one year (including pension savings outside of the LGPS) exceeds the annual allowance, the member will be taxed on the excess as income. The annual allowance is set each year by HM Treasury and is currently £40,000 for the tax year 2020/2021. The AA amount can be tapered to a minimum of £4,000 for high earning scheme members. The full table of tapered AA is provided in the fact sheet attached with this report.

Where the tax charge incurred is greater than £2,000 the member has a mandatory right under Section 237B of the Finance Act 2004 (Liability of Scheme Administrator), to ask the Hillingdon Pension Scheme to pay the tax charge. This is known as Mandatory Scheme Pays. The scheme is required to pay the tax charge to the HMRC and reduce future benefits of the scheme member using the calculation guidance issued by the Government Actuarial Department (GAD).

Mandatory scheme pays applies where the tax charge for the tax year exceeds £2,000, the amount of pension savings in the scheme was more than the Annual Allowance for the tax year and a request to pay is received from the member by 31 July, in the year following the end of the tax year to which the tax charge relates (e.g. 31 July 2022 for the 2020/21 tax year)

In circumstances where the mandatory conditions are not met, the administering authority has the discretion to extend the scheme pays facility; based on the criteria set out in the policy document attached This is known as voluntary scheme pays.

Financial Implications

The financial implications are contained within the pension fund and are explained in the report and in the policy document.

Legal Implications

The underlying legislations are incorporated in the report