

Fact sheet

Approved for investor use | April 2017

Paying an Annual Allowance Charge from your Pension

If you exceed the annual allowance, you may have to pay a tax charge. This fact sheet explains how you may be able to use your pension fund to settle the charge.

The annual allowance charge

The annual allowance is the maximum value of pension savings you can have each year without incurring a tax charge. If you exceed the annual allowance, the excess is subject to a tax charge, which is equivalent to your highest rate of income tax. Your adviser will be able to help you work out if you've exceeded the annual allowance and how much tax you need to pay. There are two ways in which you can pay an annual allowance charge: you can either settle it using your self-assessment tax return, or by using funds from your pension, using a system called Scheme Pays.

What is Scheme Pays?

Scheme Pays is a system which allows your pension scheme administrator to pay the annual allowance charge on your behalf, in exchange for an equivalent reduction in your pension benefits. The tax charge is effectively paid from your pension.

When can I use Scheme Pays?

Scheme administrators are only obliged to offer Scheme Pays if the following two conditions apply:

- Your total annual allowance charge for the tax year exceeds £2,000
- Your savings into that pension scheme during the same tax year exceeded the annual allowance.

For the second condition to apply, the savings must have exceeded the normal annual allowance (e.g. £40,000 for the 2017/18 tax year). This applies even if you are subject to a lower annual allowance, such as the money purchase annual allowance (MPAA) or tapered annual allowance. You can find more information about these allowances in the Pensions Tax Manual, available at www.gov.uk.

You can use Scheme Pays with Suffolk Life even if these conditions don't apply.

How do I use Scheme Pays with Suffolk Life?

You will need to contact our Cash Management team (details overleaf) who will send you a notice which you will need to sign, date and return to us.

Normally, you will need to wait until after the end of a tax year to ask us to pay your tax charge. For instance, if you exceeded the allowance in July 2016, you would need to wait until at least 6 April 2017 to tell us that you'd like to use Scheme Pays. The latest you can notify us is 31 July in the year following the tax year in which the charge arose. For example, if your tax charge relates to the 2015/16 tax year, you will need to notify us by 31 July 2017.

Different rules apply if you are going to start taking benefits from your pension, or if you are approaching your 75th birthday. If either applies, you need to contact us as soon as you think you might want to use Scheme Pays, even if the tax year hasn't ended or you don't know the exact amount of your tax charge. This is because we might need to take account of the tax charge before testing your benefits against the lifetime allowance.

You'll need to have enough cash in your SIPP bank account to pay the charge. If there isn't enough cash and you still want to use Scheme Pays, you will need to disinvest some of your assets. We recommend that you discuss this with your financial adviser or investment manager before making any changes to your plan.

Example: charge in 2015/16 tax year

Deadline	Description
6 October 2016	Scheme administrator to send Pension Savings Statements to investors who exceeded the annual allowance in 2015/16
31 July 2017	Investor to notify the scheme administrator that they wish to use Scheme Pays
31 December 2017	Scheme administrator to include the annual allowance charge on their Accounting for Tax return
14 February 2018	Scheme administrator pays annual allowance charge to HMRC

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Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55.

Contact details

If you'd like to speak to us about anything on this fact sheet, please contact our Cash Management team on:

T 01473 296 827

We may record and monitor calls. Call charges will vary.

E cashmovements@suffolklife.co.uk

Please remember not to send any personal, financial or banking information via email as it is not a secure method of communication.