HYMANS ROBERTSON

Sixty second summary

Annual Allowance update – the "simplification" that keeps on giving

When tax simplification was introduced in 2006 it was the impact of the Lifetime Allowance that grabbed all the headlines at the time. In recent years the impact of reductions to the Annual Allowance (AA), with a good dose of tapering from April 2016, means that this has now become the main tax simplification headline grabber.

As funds get to work on the 2017/18 exercise we thought it would be useful to remind you of the key issues to consider

A never-ending cycle

It may feel like the Annual Allowance activities are about to start again, but in truth they are something of a never-ending cycle. July is a key deadline for individuals making their mandatory scheme pays elections in respect of 2016/17. It also sees the deadline for your scheme employers to provide you with the information you require to carry out the 2017/18 exercise – how many of your employers have complied with that obligation?

Headaches all round

Tapering means that more individuals are breaching the AA and the tax they owe is increasing. From the member perspective it can be challenging for them to plan their pension saving, given that tapering is driven by earnings in the tax year. They may not know what the impact is (and it can be sizeable) until it is too late. And then there are those battling the possibility of breaching both the Annual and Lifetime Allowances and having to consider whether membership of the LGPS remains the best option available to them.

Funds resolving aggregation backlogs can also have an impact, with potential for retrospective Annual Allowance calculations unearthing breaches that should have been picked up in previous financial years.

The "mandatory" versus "voluntary" scheme pays conundrum

In some cases members have a right to make a mandatory scheme pays election, with which administering authorities must comply. Things are different though when it comes to voluntary scheme pays and funds need to be clear about which approach they are willing to take.

Notification

Administering authorities are only required to provide pension savings statements where the scheme member has exceeded the standard Annual Allowance[1] in the tax year. Even if you want to help individuals who might be impacted by tapering it can be difficult to do so, given you won't necessarily have full earnings details available. It is important to be clear on how far you are

[1] £40,000 in 2017/18

prepared to go in supporting your scheme members and make sure that you don't inadvertently stray into the territory of giving advice.

Responsibility

It is the individual's responsibility to account for Annual Allowance tax charges. This can be very challenging for them, especially if they might be affected by tapering. The risk, therefore, is that an individual may get a nasty surprise should they discover they have unpaid tax liabilities that they weren't aware of. For example, they could be subject to financial penalties for late notification and payment to HMRC, as well as subject to interest resulting from that late payment.

You need to ensure, therefore, that sufficient information is provided to scheme members highlighting their personal responsibilities and possible consequences of ignoring them.

Deadlines

It's crucial to note that voluntary and mandatory scheme pays work to entirely different deadlines. If members are to avoid late payment penalties any tax being paid by means of voluntary scheme pays needs to be with HMRC by the end of January in the year following the close of the pension input period. In order for that deadline to be met the liability really needs to be included in the previous September's accounting for tax return (AFT). That leaves precious little time to provide the member with the complex information they need to make an informed decision.

Having a clear process in place for notifying individuals of annual pension growth is crucial, even if as a fund you are not prepared to accept voluntary scheme pays elections.

Policy

While you have to comply with a legitimate mandatory scheme pays election the situation is different where voluntary scheme pays applies. Agreeing to a voluntary scheme pays election is at the discretion of the administering authority. There are a number of different scenarios where voluntary scheme pays may apply, an appreciation of the potential impact of each is required and which, if any, you are willing to entertain.

It is important, therefore, that you understand the breadth of voluntary scheme pays scenarios and have a policy in place setting out your approach to voluntary scheme pays elections and communicate this to members.

A helping hand

Is it any wonder then that administrators and scheme members alike can be confused when it comes to dealing with the Annual Allowance? We have supported a number of you already by:

- providing training to administration staff on all aspects of the Annual Allowance;
- providing guidance to individuals on the Annual Allowance and their responsibilities regarding any tax charges;
- removing the strain from administrators by undertaking detailed Annual Allowance calculations.

If this is something that would be of interest to you please get in touch with your usual contact to find out more.