

Paying tax on pension savings over the Annual Allowance limit

If your pension savings go over the Annual Allowance, you may have to pay a tax charge.

This guide provides more information about:

- Why you would have to pay a tax charge
- How you can pay the tax charge
- How much tax you will have to pay
- When the 'Scheme pays' option can be used
- How you use the 'Scheme pays' option
- How your benefits would be reduced under the 'Scheme pays' option

Why you would have to pay a tax charge

You may have to pay a tax charge if your:

- total pension savings during a year are more than the Annual Allowance (AA) for the tax year **plus** any unused AA from the three previous tax years; or
- pension savings into defined contribution arrangements exceed the Money Purchase Annual Allowance (MPAA) (this is only relevant if the MPAA applies to your pension savings – see below).

The standard AA is currently £60,000 for every tax year (although this could change in the future). Since 2023, anyone whose taxable income (from employment and non-employment, for example, including income from personal assets) is more than £200,000 and taxable income plus their pension savings for the year is greater than £260,000, will have a reduced AA. This is known as the 'Tapered Annual Allowance'.

If you have flexibly accessed a defined contribution pension benefit, then the MPAA might apply to some or all of your future pension savings but this depends on how you took these benefits. The MPAA is £10,000 for the 2023/2024 tax year.

More information about the AA, Tapered Annual Allowance and the MPAA is available in the 'Tax limits – Annual Allowance' guide at railwayspensions.co.uk/resources/read-as-you-need. Alternatively, ring the Helpline on 0800 012 1117.

How you can pay the tax charge

You'll get a statement from Railpen Limited (Railpen) if your pension savings in the Railways Pension Scheme exceed the standard Annual Allowance (AA) of £60,000 or the Money Purchase Annual Allowance (MPAA). If you have benefits in more than one pension arrangement, which don't individually exceed the AA but might when added together, then you can ask each of your pension scheme administrators for a statement so that you can work out if your total pension savings for the year have gone over the AA or MPAA.

If you expect to have a reduced AA due to the Tapered Annual Allowance and have not received a statement from Railpen, you can request one so that you can consider whether you will incur a tax charge.

If your pension savings have exceeded the available AA plus any unused AA from the previous three tax years, then you will need to notify HM Revenue & Customs (HMRC) by 31 January following the end of

the tax year in which you exceeded the AA or MPAA. You should do this through your Self Assessment tax return.

To pay a tax charge, you can either:

- pay the amount required direct to HM Revenue & Customs (HMRC); or
- use the 'Scheme pays' option, if you qualify.

Whichever option you choose, you need to let HMRC know by 31 January following the end of the tax year. If you choose to pay HMRC directly, then the tax charge will be included in your tax calculation and you will have to pay this charge by the usual Self Assessment payment deadlines.

If you choose to pay under the 'Scheme pays' option, and are eligible to do so (see the section 'When the 'Scheme pays' option can be used'), this will either be:

- under the statutory 'Scheme pays' option; or
- under an alternative 'Scheme Pays' option offered by the Trustee under certain circumstances.

If the statutory 'Scheme pays' option applies then you need to tell your scheme administrator that you wish to do this before:

- 31 July in the calendar year following the year in which the tax year ends; or
- the date when you start to receive your benefits if this is earlier.

Note – we are unable to accept and process a 'Scheme pays' option form if it is received after the 31 July deadline.

For example - for the 2018/19 tax year, the deadline for notifying HMRC of any tax liability is 31 January 2020. The deadline for notifying Railpen that you wish to use the 'Scheme pays' option to pay any tax liability relating to pension savings in the Railways Pension Scheme is 31 July 2020 or your date of retirement if this is earlier.

Railpen will then pay all or part of your tax charge (in respect of your pension savings under the Scheme) from the assets of your section of the Scheme.

Both Railpen and you will be 'jointly and severally liable' for the tax charge. This means that Railpen will pay HMRC the tax, at your request and on behalf of the Scheme, but you will have to report this amount in your Self Assessment tax return. You will remain liable for any element of the AA tax charge that is not paid by Railpen through the 'Scheme pays' option.

If the alternative 'Scheme pays' option applies, then you need to tell your scheme administrator that you wish to do this before:

- 30 November in the same calendar year in which the tax year ends; or
- The date when you start to receive your benefits if this is earlier.

Here, you will remain fully liable for the AA tax charge. However, Railpen will pay all or part of your tax charge (in respect of your pension savings under the Scheme) from the assets of your section of the Scheme, in line with your request. You will have to include this amount in your Self Assessment tax return.

If you do not supply your 'Scheme pays' option form by the appropriate deadline, you may become liable to pay late payment interest or penalties to HMRC in respect of your AA tax charge.

How much tax you will have to pay

The Annual Allowance (AA) tax charge is not a fixed rate. It depends on the rate of income tax that would be charged if your excess pension savings were added to your taxable income. For the 2023/2024 tax year, the charge could be in whole or in part 45%, 40% or 20% of the excess pension savings, depending on your circumstances. Different income tax rates may apply if you are a Scottish taxpayer.

Example

If you had pension savings of £70,000 in a tax year (all in a defined benefit arrangement) and no unused AA from the three previous tax years, the excess pension savings subject to a tax charge would be:

(Pension savings) £70,000 – (AA limit) £60,000 = (taxable pensions savings) £10,000

If you have a taxable income of £80,000, for example, then you would pay tax at the rate of 40% on your excess pension savings in 2023/24. Therefore, your AA tax charge would be:

(Taxable pension savings) £10,000 x (Income Tax rate) 40% = (Tax payable to HMRC) £4,000

If the charge is more than £2,000 it can be taken from your pension benefits using the 'Scheme pays' option. If you choose to do this, your Scheme benefits are reduced accordingly.

When the 'Scheme pays' option can be used

Under the statutory 'Scheme pays' option, Railpen can pay your Annual Allowance (AA) tax charge from your pension savings in the Scheme if:

- your total tax charge in a tax year is more than £2,000; and
- the amount of your pension savings in the Scheme in that tax year was more than the standard level of AA (i.e. £60,000).

If you meet these criteria, you can notify Railpen and opt for the Scheme to pay on your behalf all, or part of, the amount of the tax charge that relates to your pension savings under the Scheme. The Trustee will then reduce your benefits.

The 'Scheme pays' option cannot be used for tax charges arising as a result of the Money Purchase Annual Allowance (MPAA).

If your pension savings in the Scheme are not over the standard level of AA, then Railpen is not obliged to offer the 'Scheme pays' option to cover any tax charge.

However, the Trustee does offer an alternative 'Scheme pays' option to those who have a lower AA as a consequence of the Tapered Annual Allowance. Here, Railpen can pay your AA tax charge from your pension savings in the Scheme if:

- you are not eligible for the statutory 'Scheme pays' option;
- your total tax charge in a tax year is more than £2,000; and
- the amount of your pension savings in the Scheme in that tax year was equal to or more than your level of AA under the rules of the Tapered Annual Allowance.

The alternative 'Scheme pays' option cannot be used for tax charges arising as a result of the MPAA.

How you use the 'Scheme pays' option

You can provide Railpen with all the information needed by completing the form at the end of this guide. Please print a copy of the form, complete it and send it so that Railpen receives it within the timescale explained above. Railpen will acknowledge receipt of this form.

Please note that when supplying your form to Railpen, you should provide the amount of the tax charge that is due rather than details of your excess pension savings. Railpen do not have details of your personal tax rates.

Once you have submitted a notice, it cannot be withdrawn. However, if your liability to an Annual Allowance tax charge changes, due to unforeseen circumstances, the notice can be replaced by a further notice.

How your benefits would be reduced under the 'Scheme pays' option

If you have additional voluntary contribution (AVC) funds in BRASS or AVC Extra, then these will be used first to pay the tax due.

If you have more than one type of AVC fund available, funds will be used by the Trustee so that any surrender penalties are minimised for you.

If you don't have any AVC funds, or those you do have are not enough to pay the tax due, then a defined contribution account, known as a 'notional negative account' will be held to offset against your benefits at retirement. The 'notional negative account' will be opened with a negative value equal to the amount of tax charge payable less any existing AVC funds.

If you build up any new AVC funds in the future, then you will have the option to settle your 'notional negative account' at the time that these funds exceed the value of the 'notional negative account' (plus interest in line with returns achieved on the Long Term Growth Fund plus 0.2% per annum). Otherwise, at retirement, the value of any outstanding 'notional negative account' (plus interest, in line with returns achieved on the Long Term Growth Fund plus 0.2% per annum) would be met by a combination of AVC funds built up by retirement, Scheme lump sum and Scheme pension.

If Scheme pension needs to be taken into account to settle the 'notional negative account', Scheme pension will be converted to lump sum.

For example, at retirement:

Notional negative account including interest	=	£21,000		
Less AVC funds	=	£3,000		
Less Scheme lump sum	=	£15,000		
Remaining 'notional negative account' value after using up AVC fund and Scheme lump sum to be met from Scheme pension	=	£3,000		
Scheme pension (per annum)	=	£10,000		
Scheme commutation factor ¹		12:1		
To provide £3,000 additional Scheme lump sum	=	£3,000	÷ 12	= £250
Reduced scheme pension (per annum)	=	£10,000	- £250	= £9,750

¹ For this example, it has been assumed that a factor of 12:1 is used to convert Scheme pension to cash lump sum (i.e. £1 per year of Scheme Pension can be converted to £12 of cash)

Please note: There are no administrative charges for using the 'Scheme pays' option.

If you are a preserved member and you wish to transfer your benefits out of the Railways Pension Scheme, any 'notional negative accounts' held will be deducted from your transfer value (allowing for interest up to the date of transfer, in line with returns achieved on the default BRASS investment fund plus 0.2% per annum).

For inter-section transfers any outstanding 'notional negative account' amounts will be transferred across to the new section and will be payable from the new section at retirement, using a combination of AVC funds built up by retirement, Scheme lump sum and Scheme pension.

More information

If you would like further information about the 'Scheme pays' option, please contact the Helpline on 0800 012 1117.

If you are affected by the Annual Allowance, it is your responsibility to report the amount of pension savings you have made in excess of the allowance to HM Revenue & Customs as part of its Self Assessment process. You can find more information about the Self Assessment process at [hmrc.gov.uk/sa](https://www.hmrc.gov.uk/sa)

Disclaimer

The information provided in this leaflet is intended for general information and illustrative purposes. It does not constitute investment or any other advice, and it is not intended to be a substitute for information and statements provided by Railpen. It should not be relied on to make investment or other decisions. Railpen gives no warranty and accepts no responsibility for the accuracy of any information provided, or for your reliance on that information. Your benefits will be worked out in accordance with and subject to the governing trust deed and rules.

Although every effort has been made to ensure that the information given in this leaflet is accurate, none of the information given can give you legal rights to benefits that differ from those provided in the pension trust and rules.

'Scheme pays' notice

Your details	
Title:	
Full name:	
Home address:	
Postcode:	
Pension Reference Number:	
National Insurance number:	
Section of the Railways Pension Scheme (RPS) you are currently a member of:	

The Annual Allowance tax charge you require the RPS to pay	
Tax year in which the liability to the Annual Allowance tax charge arose:	
Do you expect to take your benefits from the RPS (including any other sections you are in) before the end of the above tax year?	YES / NO (please delete as applicable)
If the above answer is "YES", on what date do you plan to take your benefits from the RPS?	
Amount of Annual Allowance tax charge that you want the Scheme to pay in respect of the above tax year:	£ (This cannot be more than the tax due in respect of pension savings under the RPS in the tax year, as the Scheme cannot pay tax in respect of savings in any other pension scheme).

Certification by you	
<p>I confirm that the amount of Annual Allowance tax charge that the RPS is to pay in respect of the above tax year has been calculated correctly and is less than the relevant rate multiplied by the chargeable amount (as described in section 237B(4) of the Finance Act 2004), and that my total Annual Allowance tax charge for that year exceeds £2,000.</p> <p>I understand that this notice cannot be revoked by me.</p> <p>I understand how my future benefits to be paid from the above named section of the RPS will be adjusted to take account of the amount of tax paid (as set out in this notice) by the RPS on my behalf.</p>	
Signature:	Date:
Full name: (Please print)	

Once completed, please send this form to: Railpen, PO Box 300, Darlington, DL3 6YJ

Important note: You should receive an acknowledgement from Railpen within 28 days to confirm that your wishes have been recorded. If you do not receive an acknowledgement within 28 days, then please contact Railpen immediately on 0800 012 1117.
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