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| By: | Chairman Superannuation Fund Committee<br>Corporate Director of Finance & Procurement |
| To: | Superannuation Fund Committee – 17 March 2017 |
| Subject: | **PENSIONS AND TAX** |
| Classification: | Unrestricted |

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Summary: To agree an administering authority policy on the use of voluntary scheme pays.

**FOR DECISION**

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## INTRODUCTION

1. Over the last few years the Government has made major changes to the tax regime which applies to pensions. This report seeks an administering authority decision in relation to voluntary scheme pays.

## TAX RULES

2. There are three main elements to the tax changes on pensions:

    (1) Lifetime Allowance- the lifetime allowance is the maximum level of benefits that an individual can draw without incurring tax changes. This was reduced from £1.8m to £1.5m from 6 April 2012, a further reduction to £1.25m from 6 April 2014 and to £1m from 6 April 2016. This is a very significant reduction over a short period and is explicitly intended to raise additional tax revenue for deficit reduction. The changes will draw in large numbers of individuals across the whole of the public sector, this is not a change that will only impact a small number of the most senior officers.

    (2) Annual Allowance- this is the value of the annual increase in the value of an individual’s pension pot. This was reduced from £255,000 to £50,000 on 6 April 2011 and was further reduced to £40,000 from 6 April 2014. A quite junior officer who has a significant promotion and consequential pay rise can have a tax liability related to their pension under these arrangements.

    (3) Additionally from April 2016 individuals earning over £150,000 will lose £1 of annual allowance for every £2 of salary over £150,000. This change will impact upon a very small number of Officers across the scheme.

3. In all of these arrangements the Pension Fund is effectively acting as an agent of HMRC to facilitate the collection of income tax.

4. The Pensions Section now has to notify individuals affected by annual allowance issues by 6 October. This timescale is earlier than previously and will be very hard

to achieve given that we only receive pay information from employers as part of the year end process which with many employers is a very protracted process. Calculations are manually based and have to look at a three year period as individuals can use unused allowance from previous years. Two of our most senior technical consultants focus wholly on this work for a 6 to 8 week period. We have to achieve these timescales as individuals then have a very limited period in which to pay any tax. .

5. The long standing arrangement has been that individuals where the tax liability is more than £2,000 can elect to use voluntary scheme pays. This means that the Kent Fund will pay the tax and this is deducted from the individuals personal pension pot.

6. Late in 2016 it was picked up that changes in the tax legislation has the effect of placing the discretion required to continue to allow scheme pays to each administering authority.

7. In each of the last couple of tax years scheme pays has applied to a handful of individuals each year.

8. A decision is required before the end of the financial year so that the Pensions Section can issue clear guidance for scheme members.

## RECOMMENDATION

9. Members are asked to agree to a voluntary scheme pays option for all scheme members where their individual annual allowance has been exceeded and there is a tax liability in excess of £2,000.

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