

GUIDANCE NOTE

PAYING AN ANNUAL ALLOWANCE CHARGE FROM YOUR PENSION

APPROVED FOR CLIENT USE | APRIL 2023



If you exceed the annual allowance, you may have to pay a charge. This guidance note 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 while benefiting from tax relief. If you exceed the annual allowance, the excess is subject to a 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 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 three 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.

- You notify the scheme administrator that you intend to use Scheme Pays by 31 July in the year following the tax year in which the charge arose (for example, by July 2024 for a charge which arose in the 2022/23 tax year).

For the second condition to apply, the savings must have exceeded the normal annual allowance (e.g. £60,000 for the 2023/24 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 our factsheets, or in the Pensions Tax Manual, available at: www.gov.uk.

You can use Scheme Pays with Curtis Banks even if these conditions don't apply.

How do I use Scheme Pays with Curtis Banks?

You will need to contact our New Business 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 charge. For instance, if you exceeded the allowance in July 2023, you would need to wait until at least 6 April 2024 to tell us that you'd like to use Scheme Pays. However, different rules apply if you are going to start taking benefits from your pension, or if you are approaching your 75th birthday.

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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 annual allowance charge.

This is because we might need to take account of the charge before testing your benefits against the lifetime allowance.

If you would like to use Scheme Pays and you don't meet the conditions mentioned overleaf, you should try to notify us that you would like to use Scheme Pays by your normal self-assessment deadline for the tax year in which the annual allowance charge arose. If you miss this date we should still be able to offer Scheme Pays, but HMRC might apply interest or a penalty. We strongly recommend that you speak to a financial adviser before proceeding.

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.

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, although this is due to increase to 57 in 2028.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA and HMRC regulation. It does not constitute any form of advice.

Contact details

If you'd like to speak to us about anything on this guidance note, please contact us on:

T 01473 296 824

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

E newapplications@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.