

Reduced Annual Allowance and Scheme Pays

HMRC have introduced the option for members of the NHS Pension Scheme to elect for the scheme to pay all or part of their NHS Pension Scheme annual allowance charge in relation to tax years from 2011/12 onwards in some circumstances – this is called ‘Scheme Pays’.

There are 3 main conditions that must be met for the member to be able to qualify for this:

- The member exceeds the annual allowance in the NHS Pension Scheme in the relevant tax year from 2011/12 onwards
- The member has an overall tax charge of more than £2,000 in the same relevant tax year
- The member has not taken all their benefits in the NHS Pension Scheme

In some other circumstances a member may not be able to elect for scheme pays, for example, if a member has a guaranteed minimum pension and their scheme pays election would mean that their benefits would be reduced below this level.

If the member elects for Scheme Pays, they will be subject to a permanent reduction in their benefits.

Where a tax charge arises in more than one pension scheme, members will only be able to ask NHS Pensions to pay the proportion of the tax charge that relates to the NHS Pension Scheme.

Members do not have to elect for Scheme Pays, and can choose to pay the tax charge via self-assessment instead.

The details of how Scheme Pays will operate on a practical level have not yet been confirmed. Once more is known the NHS Pensions website will be updated with further information on how the process works.