

Scheme Pays



Two Types of Scheme Pays

- **Mandatory Scheme Pays (MSP)**

 - **Voluntary Scheme Pays (VSP)**
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Mandatory Scheme Pays (MSP)

- MSP applies where;
 - The tax charge is over £2000
 - The individual is subject to the standard annual allowance £40k
 - Relates to a single scheme for the immediate preceding tax year
 - Member must confirm if they want MSP to apply by 31 July following Pension Saving Statement
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MSP 2018/2019 Tax Year

9 Months

6 October
2019

- Issue Pension Savings Statement for 2018/2019

- Individual Identifies a Tax Charge

31 July 2020

- Individual requests MSP

Voluntary Scheme Pays (VSP)

- VSP applies where;
 - MSP does not!
 - Fire - can offer VSP 'where there are sufficient grounds for doing so'
 - Police - scheme rules changed to allow VSP
 - Payment must be paid to HMRC by 31 January following Pension Saving Statement
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Sufficient grounds...

- Member with benefits in both CARE and Final Salary schemes
 - Member subject to taper annual allowance (Less than £40k)
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Combined amounts above £40k



Single amount above £40k



VSP 2018/2019 Tax Year

3 Months

6 October
2019

- Issue Pension Savings Statement 2018/2019

- Individual Identifies a Tax Charge and requests VSP

31 January
2020

- Scheme pay tax charge to HMRC

Scheme pays

- D = Tax Charge as declared by member £71,622.46
- E = Scheme Pays Factor 12.58

Scheme Pays

$$D \div E$$

$$(\pounds 71,622.46 \div 12.58) = \pounds 5,693.36$$

Proportion scheme pays

- A = Final Salary Pension Savings
- B = Career Average Pension Savings
- C = Total Pension Savings (A + B)
- D = Tax Charge as declared by member
- E = Final salary scheme pays factor
- F = Career Average scheme pays factor

Final Salary formula	Career Average formula
$(A \div C) \times D \div E$	$(B \div C) \times D \div F$

Proportion scheme pays

- A = £192,529.60
- B = £26,186.72
- C = £218,716.30
- D = £71,622.46
- E = 12.58
- F = 8.42

Final Salary formula	Career Average formula
$(A \div C) \times D \div E$	$(B \div C) \times D \div F$
$(£192,529.60 \div £218,716.30) \times £71,622.46 \div 12.58 = \mathbf{£5,011.70}$	$(£26,186.72 \div £218,716.30) \times £71,622.46 \div 8.42 = \mathbf{£1,018.44}$

Useful references

	1987 /1992 Final Salary Scheme	2006 Final Salary Scheme	2015 CARE Salary Scheme
Fire Scheme Rules	[Rule B11]	[Part 14, Para 2]	[Part 13, Chapter 3]
Police Scheme Rules	[Rule B11(2)]	[Part 8, Para 84]	[Chapter 6]
Tax Charge Debit - GAD Guidance	http://www.fpsregs.org/index.php/gad-guidance/tax-charge-debits-scheme-pays		
Finance Act	214 to 226, Part 4, Chapter 5 of the Finance Act 2004 http://www.legislation.gov.uk/ukpga/2004/12/part/4/chapter/5/crossheading/lifetime-allowance-charge		
Pensions Tax Manual	https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm083000		