

What is Scheme Pays?

When contributing to pensions, some members may exceed the **Annual Allowance (AA)** and be subject to additional taxation.

Where this happens, members may be able to use the Scheme Pays option and the Scheme will settle your outstanding tax charge with HMRC.

You may only make use of the Scheme Pays option if:

- ◆ You are an active member of the Scheme
- ◆ Your pension savings in a tax year have exceeded the AA
- ◆ Your AA Charge is more than £2,000
- ◆ You want the Scheme to deduct some (or all) of the AA Charge from your benefits and pay it directly to HMRC

You should ensure you fully understand the impact this will have on your benefits before deciding to use Scheme Pays for any AA Charge. It is recommended to discuss your options with a financial adviser.



What is the Annual Allowance (AA)?

The AA is a limit set on the total amount of pension savings you can build up each tax year that receive tax relief. Any pension savings above the AA may incur a tax charge (AA Charge). Pension Savings are valued differently depending on the type of scheme you are a member of.

A Pension Input Period (PIP) is a measure of time over which contributions have been made to a DC scheme or a pension has been built up in a DB scheme. PIPs for all pension schemes are aligned with the tax year.

For **Defined Contribution (DC)** arrangements, pension savings are the contributions paid by you and your employer over the PIP.

For **Defined Benefit (DB)** arrangements, a more complex calculation is carried out, to give a value for the increase in your benefits over the PIP.

From 6 April 2023, the Standard AA is **£60,000**. In each tax year, pension savings up to the AA are tax-free.

Calculating AA usage (DC only)

Currently, all active members are in the DC Section, so the allowance is the sum of contributions paid by both the employee and employer (including any AVCs and Bonus Sacrifice). For example:

◆ Member Contributions:	£4,800
◆ Employer Contributions:	£8,000
◆ Member AVCs:	£16,000
◆ Bonus Sacrifice:	£40,000
◆ Total	£68,800

In the above example, this member has exceeded the AA by **£8,800** and may be liable for a tax charge.



BASF UK Group Pension Scheme Exceeding the Annual Allowance – Scheme Pays



Calculating AA usage (DC & DB)

If you have DB benefits in the Scheme then you may need to include these benefits in your AA calculation. For example:

- ◆ Pension Inflation Rate (CPI): 5%
- ◆ DB Pension Starting Value: £25,000
- ◆ DB Pension Closing Value: £28,000
- ◆ $(£28k \times 16) - (£25k \times 16 + 5\%) = £28,000$

In the above example, this member has generated **£28,000** of AA from their DB pension, which should be added to their DC AA to give a total.

Typically, only members with either a Salary Link or with Enhanced Revaluation will use any AA from their DB pension.

Does everyone have the same AA?

From **6 April 2016**, the AA that applies to you may be lower than the standard amount if:

- ◆ You have an income over £110,000 a year
- ◆ You have accessed some pension money from a pension pot

If either of the above apply, you may be subject to the **Tapered Annual Allowance (TAA)**. You can find more information about the TAA on the [Pension Website](#).

Annual Allowance Tax Charges (AA Charge)

An AA charge will be due if your pension savings are more than the AA for the year, plus any unused AA you have from the previous three tax years.

It is your responsibility for checking if your pension savings in the Scheme (together with your pension savings in any other pension arrangements) exceed the AA during a tax year.

The Trustee and Company cannot provide you with any financial advice in relation to the AA or whether you need to pay an AA charge. However, if your pension savings in the Scheme exceed the AA during a tax year, you will receive a statement to confirm the amount of pension savings that are above the AA.

If you think you have exceeded the AA, under current tax rules, you can use carry forward, which is where you can offset pension savings over the AA in one year by any unused AA from the previous three tax years. If you have taken money from a pension pot and the money purchase annual allowance applies to you, carry forward is not available.

The AA charge is currently based on the excess savings and your highest rate of income tax. If your pension savings in the Scheme are more than the AA, HMRC will be automatically informed.

If your total pension savings are more than the AA (after taking any carry forward into account), you are responsible for reporting this excess to HMRC via a self-assessment tax return. The AA charge would then be calculated by HMRC (currently based on the excess pension savings and your highest rate of income tax) and payable within the normal self-assessment deadlines. If you don't normally complete a self-assessment tax return, you would need to register to do so.



BASF UK Group Pension Scheme Exceeding the Annual Allowance – Scheme Pays

How do I use Scheme Pays?

Complete the **Scheme Pays Election Form** (available on the [Pension Website](#)). You must report your excess pension savings to HMRC via a self-assessment tax return and the amount of the AA charge the Scheme will be paying for you.

Once you have submitted your election, you cannot withdraw it and your benefits will be adjusted to pay the AA Charge. However, if you are notified that your AA Charge changes, you should contact the administrator who may be able to help you adjust the amount of your election.

If, in the next 12 months, you will be leaving the Scheme and either retiring or transferring your benefits, please inform the administrator so that the Scheme can process your election before you retire or transfer.

If you have already taken your benefits (through retirement or transfer) in the interim period, it will not be possible to use Scheme Pays.



How long do I have to decide?

For each year, Scheme Pays elections must be received by the Scheme by 31 July in the year following the end of the relevant tax year. For example, if your AA Charge relates to the 2024/25 tax year, your election deadline will be 31 July 2026.

How does Scheme Pays affect my pension?

As all active members are in the DC Section, your DC Account would be reduced by the required amount to cover the AA Charge.

For example, if your AA Charge was £5,000, the Administrator would arrange for some of your investments in your DC Account to be sold, to the value of £5,000.



Where can I get help?

If you have any questions about Scheme Pays, contact the Scheme Administrator.

✉ BASF UK Group Pension Scheme
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PO Box 319
Mitcheldean
GL14 9BF

✉ BASF@ajg.com

📞 **0330 123 0647**

🌐 <https://www.pensionportal.co.uk/basf>

**Gallagher**

Insurance | Risk Management | Consulting

BASF, the Trustee, and the Scheme Administrator are not able to provide you with financial advice. However, if you do wish to speak to an approved Independent Financial Adviser (IFA), you can find one local to you by visiting www.unbiased.co.uk.