

How do I manage my pension's tax liability?

If you think you are likely to be impacted by pensions tax, you should speak to an independent financial advisor to discuss the options available to you and the best course of action to suit your own personal circumstances.

The ***Pensions Tax and Financial Advice*** section contains details of independent financial advisers who are working with the London Pensions Consortium to provide financial advice to members. The ***FAQ and Useful links*** section also contains details of how you can locate an independent financial advisor and details of other organisations who may be able to assist you.

If you are a member of the USS pension scheme, the scheme offers some scheme specific options designed to help members manage their pensions tax position.

Further information can be found on the [Pension Tax page](#) of the USS website but pensions tax is a complicated area and you will need to carefully consider the choices you make in relation to all of your pension savings, including all other pension arrangements that you may have outside of the Schools arrangements.

In many instances, your net benefits, even after a potential tax charge, may still be greater than the net cost of the pension contribution paid by you so it is important that you fully understand the implications of any decision you make and seek independent financial advice in order to obtain the most appropriate solution for your individual circumstances.

A brief summary of some of the options offered by USS is detailed below but the election of these options can have implications upon other aspects of your USS benefit entitlement and so it is important that you read and fully understand the factsheets available from the [Pensions Tax page](#) of the USS website.

Enhanced Opt Out (EEO)

This option allows members to retain Death in Service and Incapacity cover within USS without building up any further retirement benefits.

As you will cease to build up any further retirement benefits, this option is aimed primarily at members who are approaching or have exceeded the Lifetime Allowance and do not wish to build up further benefit entitlement in excess of the Lifetime Allowance.

EEO has implications upon your flexible retirement options and late retirement options, amongst other things, so it is important that you fully understand this process.

Enhanced Opt Out can be elected at any time by giving a minimum of 28 days notice.

Voluntary Salary Cap (VSC)

This option is intended to give members the option to restrict the level of their salary used for pension purposes.

This allows you to cap the future accrual of pension benefits in the scheme by setting a salary for pension purposes at a level lower than your actual salary, provided it is no less than the salary threshold for the year.

Under this option, you will continue to earn further pension benefits but at a reduced level.

You have the option whether you wish to retain your Death in Service and Incapacity cover at the level of your full salary or your capped salary.

It is important that you understand the impact that this option has upon your future contribution rate and your Annual Allowance and Lifetime Allowance position.

The Voluntary Salary Cap can only be implemented with effect from 01 April each year and you must provide at least 28 days notice of your election in advance.

Scheme Pays

If you incur an Annual Allowance tax charge in any year, you may ask for this to be paid from your USS scheme benefits if the tax charge payable is more than £1,000.

USS offer a facility, should you incur an AA tax charge, to request that the scheme pays the AA tax charge on your behalf with an appropriate reduction being made to your benefits.

This can save you having to pay the charge out of your own savings or other funds.

Initially any tax charge will be funded from your USS Investment Builder fund and if your available Investment Builder funds are insufficient, then a pension debit can be applied to your benefits earned within the USS Retirement Income Builder.

If you are not subject to a tapered Annual Allowance and your Annual Allowance used exceeds the standard £40,000 allowance, and your tax charge exceeds £2,000, then you have a legislative right to instruct USS to use the Scheme Pays facility. There is a statutory deadline date of 31 July of the following year in order to use this 'Mandatory Scheme Pays' facility.

With the introduction of the tapered Annual Allowance from 2016/17, individuals who exceed their available tapered allowance but have not exceeded the standard £40,000 allowance do not have the right to use 'Mandatory Scheme Pays' facility.

'Mandatory Scheme Pays' will only cover any excess allowance used over the standard £40,000 allowance, but individuals are required to pay the excess over their tapered allowance amount from their own savings.

To assist with this, USS have introduced a 'Voluntary Scheme Pays' facility.

This facility will allow USS to pay your Annual Allowance excess tax charge from your scheme benefits on a voluntary basis if the charge is over £1,000.

However, as this charge is being paid on a voluntary basis, the charge is required to be paid within the same deadline as the normal self-assessment deadline (i.e. 31 January of the following year) to ensure individuals do not fall foul of the late payments regime for personal tax liabilities.

To allow for the processing of this payment to be completed by this deadline, USS need to be in receipt of elections to use the Scheme Pays facility some weeks advance of the self-assessment deadline. Exact deadline dates are communicated by USS on a yearly basis.

In order to inform USS that you would like to use the Scheme Pays facility, you must complete and return a Scheme Pays Election form within the deadline, available from the [Forms](#) page of the USS website.

If you elect to use the Scheme Pays facility in any year you will need to complete a self-assessment tax return by 31 January following the tax year in question and confirm to HMRC within your return the amount of any AA charge which is to be paid by the scheme.

Please note that it is your responsibility to ensure that the amount of the AA tax charge is correctly calculated. Neither USS nor LSE are able to calculate your Annual Allowance tax liability due for you.

It is not possible to cancel a Scheme Pays notification but it may be possible to amend the amount if your tax charge increases.

A factsheet providing further detailed information of the Scheme Pays facility is available from the [Pensions Tax page](#) of the USS website.