

Scheme Pays recap

What is
'scheme pays'?

Where the Annual Allowance charge exceeds £2,000 in any year from all of a member's schemes, and the pension input period in your scheme exceeds £40,000, it is mandatory for the member to be able to elect for the scheme to pay the charge on their behalf.

This is known as "scheme pays".

Member A



- Active member of the plan
- Annual allowance of £40,000
- Pension input amount of £55,000
- The member has no unused carry forwards from previous years
- Tax rate of 45%

Member is liable for a tax charge of:

$£55,000 - £40,000 = £15,000$ to be taxed

$£15,000 \times 45\% =$ a tax charge of £6,750

Since this tax charge is over £2,000, and the member's pension input amount is greater than £40,000, under the HMRC rules, the member may elect to pay the tax charge through Scheme Pays.