

BASF UK Group Pension Scheme

Exceeding the Annual Allowance – Scheme Pays

Any person who is an active member of a pension scheme should understand the limits imposed on pension savings (known as the **Annual Allowance**). This factsheet will help members understand the allowance and what happens if it is exceeded and should be read in conjunction with the **Lifetime Allowance & Annual Allowance Policy** (available on the [Pension Website](#)).

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 incur a tax charge (**AA Charge**).

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

What are classed as ‘Pension Savings’?

Pension Savings are valued differently depending on the type of scheme you are a member of.

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

How do I calculate my BASF Annual Allowance consumption?

Only active members need to consider the impact of the Annual Allowance. Currently, all active members of the Scheme are members of the **DC Section**, so the allowance is simply the sum of contributions paid by both the employee and employer (including any AVCs and Bonus Sacrifice).

If you also have a linked benefit from your membership of the Defined Benefit sections, then you may need to ensure that these benefits are included in the calculation. The simple example below assesses the allowance:

Pensionable Salary:	£110,000	Employee Contribution: 20%	Employer Contribution: 10%
Revaluation/Inflation rate:	3.2%		
Defined Benefit Pension:	£25,000 per annum (previous year)		£27,500 per annum (current)
DC Annual Allowance:	£110,000 x 30% =		£33,000
DB Annual Allowance:	(£27,500 x 16) – (£25,000 x 16 + 3.2%) =		£27,200

Based on the above example, the total allowance consumed is **£60,200**, exceeding the AA by **£200**.

Is everyone subject to the standard AA?

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

- you have an income over £110,000 a year
- you have taken money from a pension pot

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

How do I know if I'm subject to an 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, we will send you 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.

I'm subject to an AA Charge, what should I do?

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 by the Scheme Administrator.

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. You can access the self-assessment via www.gov.uk.

Scheme Pays

Scheme Pays is an option available to you in certain circumstances to meet this charge. It allows you to ask the Scheme to pay all, or part of the **AA Charge** due.

If you have an **AA Charge** to pay, in accordance with legislation, you can opt for the Scheme to pay your tax charge for you in exchange for a reduction of your benefits.

In return for paying the **AA Charge**, the Trustee would reduce your benefits in the Scheme by an equivalent amount.

In the Scheme, you may only make an election to use the Scheme Pays option if:

- You are an active member of the Scheme
- Your pension savings in the Scheme over a tax year have exceeded the AA
- Your **AA Charge** is more than £2,000, and
- You want the Scheme to deduct some, or all, of the **AA Charge** from your Scheme 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.

If I use 'Scheme Pays', how will my benefits be reduced?

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

I want to use 'Scheme Pays', what do I need to do?

You should complete the **Scheme Pays Election Form** (available on the [Pension Website](#)). You must also 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 **2022/23 tax year**, your election deadline will be **31 July 2024**.

Where can I get help?

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

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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.