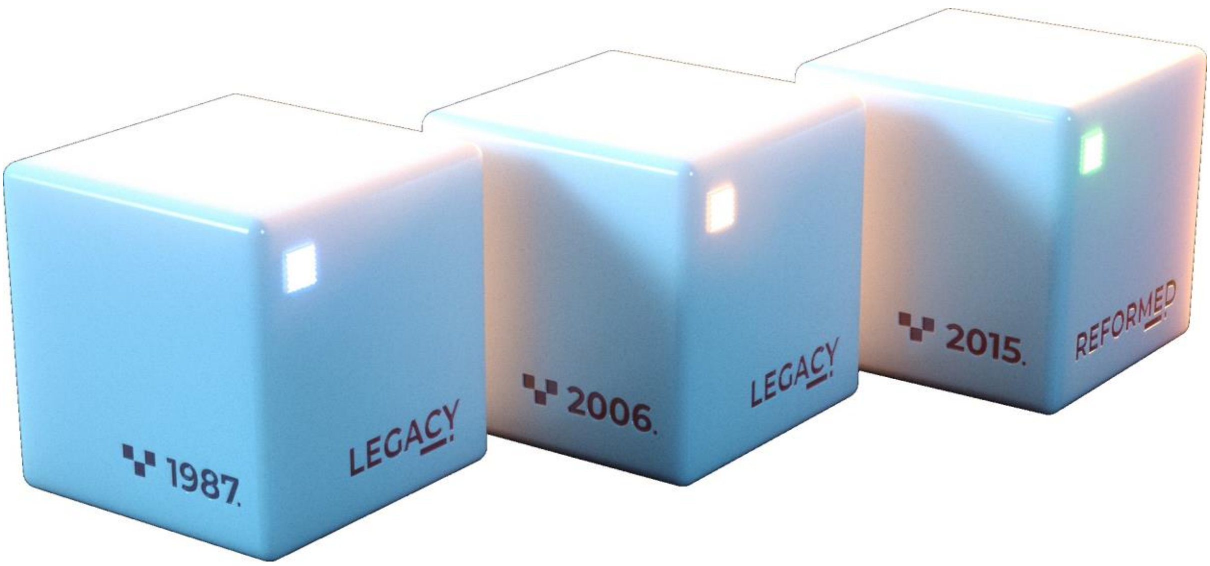
NPCC
National Police Chiefs' Council

Member tax information
Pensions tax and remedy



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Introduction

1. This document is for members of the police pension scheme to provide information about pensions tax and remedy covering all aspects including how pensions tax charges for annual or lifetime allowance may arise as a result of remedy. This provides some key information and builds on the information contained in the introduction to pensions tax document.
2. The information and rates quoted in this document are for the 2024/25 tax year and therefore relevant links have been provided throughout the document to the GOV.UK website so that the most up to date information can be found.
3. In the appendix of the document there are some case studies with example calculations to show the impact of remedy on annual and lifetime allowance.
4. At the end of the document there is also a glossary with some useful terms explained.
5. Due to the complex nature of police pensions, taxation and remedy, the technical content of this document has been specifically commissioned by NPCC and written by specialist tax advisers KPMG.

Rollback to legacy scheme

6. New legislation introduced on 1 October 2023 meant that all members with eligible service, had their membership of the police pension scheme (PPS) during the remedy period "rolled back" to their respective legacy scheme.

7. All eligible members will receive a choice about which set of remedy benefits, either legacy or reformed, they wish to receive for the remedy period and for members that retire on or after 1 October 2023, this choice will not be made until the date of retirement.

8. More information about remedy and eligibility can be found on the FAQs page of the policepensioninfo website.

Impact on pensions savings

9. The benefits you built up in your legacy scheme over the remedy period may be different to the benefits you built up in PPS 2015. This means the value of these benefits for testing against annual allowance and lifetime allowance may be different.

10. Rollback may change the amount of pension you built up each year (your pension input amount or "PIA") and change the value of pensions savings to be tested against your annual allowance in each tax year during the remedy period.

11. You may already have paid a tax charge during the remedy period which needs revising, or you may owe tax for the first time. Out of scope and In-scope tax years have been defined by HMRC as: -

Out of scope tax years	In-scope tax years
2015/16	2019/20
2016/17	2020/21
2017/18	2021/22
2018/19	2022/23

12. Although the tax year 2022/23 is outside of the remedy period, for pensions tax remedy purposes it is included as an in-scope year as it falls before rollback occurs on 1 October 2023.

13. HMRC can only collect tax owed from 'in scope' tax years where you have underpaid your annual allowance charge following the impact of rollback. To pay any new or increased annual allowance tax charges for in scope years you will need to use the HMRC digital service.

14. You may make an application for a compensation payment of any previously overpaid annual allowance charges: -
    a. To HMRC for in-scope years by using the HMRC digital service.
    b. To the scheme manager of your force (the Chief Constable) for out-of-scope years, by making a claim for compensation[1].

15. In summary, the out of scope and in scope tax years mean:

Out of scope tax years	In-scope tax years
New annual allowance tax charges will not be paid	Pay new annual allowance tax charges
Increased annual allowance tax charges will not be paid	Pay increased annual allowance tax charges
Compensation payable for overpaid annual allowance tax charges	Compensation payable for overpaid annual allowance tax charges

Other points to note

16. If you had or were close to having a tapered annual allowance during the remedy period, your threshold income and adjustment income may have changed because of rollback based on the contributions you should have paid to the legacy scheme.

17. Therefore, the annual allowance limit against which you are testing your pension savings may also have changed. HMRC have provided a newsletter about changes to your annual allowance following remedy.

[1] Member guidance for compensation claims - Member remedy factsheet, Compensation claim form

Pensions Savings Statements

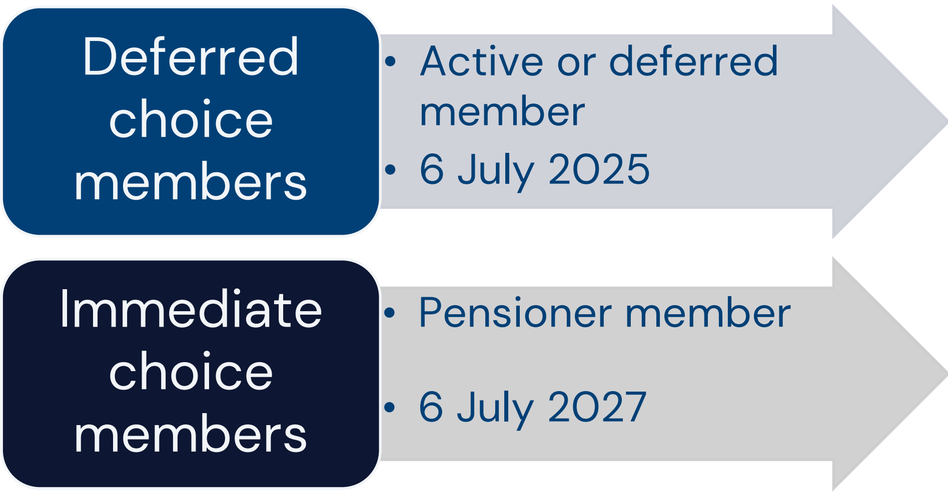
18. Ordinarily, if the pension you have built up over the year ending 5 April exceeds the annual allowance, pensions savings statements (PSS) would be issued by 6 October.

19. However, for members affected by roll back, for the 2022/23 year. this deadline has been delayed by one year until 6 October 2024. This is to ensure your pension figure reflects the impact of roll back. This delay means: -

  a. You were not required to report any annual allowance charge for the 2022/23 year on your self-assessment tax return by the standard 31 January 2024 deadline, and

  b. You have an extended deadline to use mandatory scheme pays to pay an annual allowance tax charge that occurs in any in-scope tax year.

20. The amended mandatory scheme pays deadlines depend on whether you were a deferred choice or immediate choice member as at 30 September 2023: -



Establishing your annual allowance position

21. In October 2024, you will receive a PSS from your pension administrator if your rolled back pension input amount has exceeded the annual allowance in any scheme years between 2015/16 and 2023/24.

22. You will need to use the [HMRC digital service] to calculate your public service pension adjustment and determine whether you have any new or revised tax charges as a result of rollback.

Impact on lifetime allowance – immediate choice members

23. Rollback may change the amount of pension you built up during the remedy period, and therefore change the total value of your pensions savings over your lifetime and tested against the lifetime allowance (LTA).

24. Whilst the LTA was removed on 6 April 2023 and completely abolished one year later, you may still need to consider the LTA implications of rollback if you began to receive benefits before this date.

25. At the point at which you began to receive your benefits (known as a "Benefit Crystallisation Event" or "BCE"), the value of your total pension savings across all schemes would have been tested against the LTA limit applicable at that date.

26. Therefore, if you are subject to remedy and the value of your pension savings has changed because of the choice of remedy benefits you make, the amount of your LTA which you have used will also have changed.

27. You may already have paid a tax charge during the remedy period which needs revising, or you may owe tax for the first time. HMRC can only collect tax owed from 'in scope' tax years where you have underpaid your lifetime allowance charge following the impact of your choice of remedy benefits.

28. You may make an application for a compensation payment of an overpaid lifetime allowance charge: -

    a. To HMRC for in-scope years by using the HMRC digital service.

    b. To the scheme manager of your force (the Chief Constable) for out-of-scope years, by making a claim for compensation[2].

[2] Member guidance for compensation claims – Member remedy factsheet, Compensation claim form

29. In summary, the out of scope and in scope tax years mean:

Out of scope tax years

- New lifetime allowance tax charges will not be paid
- Increased lifetime allowance tax charges will not be paid
- Compensation payable for overpaid lifetime allowance tax charges

In-scope tax years

- Pay new lifetime allowance tax charges
- Pay increased lifetime allowance tax charges
- Compensation payable for overpaid lifetime allowance tax charges

Lifetime allowance protections

30. Different LTA protections have been introduced since 6 April 2006. They protect you from reductions in the standard LTA. If you have or previously had LTA protection, it might be affected by rollback.

Individual Protection 2016

- Apply if after rollback the value of pension pot on 5 April 2016 is above £1m

Fixed Protection 2016

- May be lost if after rollback the value of benefits increases

31. The Remediable Service statement, which you will receive by 31 March 2025, will provide information about the total value of your pension savings compared to the lifetime allowance.

32. This will reflect the cumulative totals under each option but may not include LTA protections so you should allow for that impact when making your choice if you do have protection.

Appendix A

1. A number of example illustrations have been provided in this appendix to show how pensions tax impacts pension benefits with remedy.

Case study 1: Impact of rollback to PPS 1987 on annual allowance

- Robert is a Chief Inspector with 23 years' pensionable service at 5 April 2014
- At 6 April 2014, Robert has pensionable salary of £54,207
- Robert continues over the next 8 years and beyond and receives ordinary and promotional salary increases
- He is full time and doesn't pay any AVCs
- Robert has no other income and his income is under the threshold income

2. Robert is a transitional PPS 1987 member, and he will have a choice when he retires as to which set of benefits he receives over the remedy period.
3. As part of rollback to the PPS 1987 his annual allowance position will be changed

Pension input period (PIP)	Pensionable salary	Pension input amount (PIA) PPS 1987 remedy benefits	Pension input amount (PIA) PPS 2015 remedy benefits
6 April 2015 to 5 April 2016	£54,207	£24,449	£23,481
6 April 2016 to 5 April 2017	£55,878	£42,395	£40,204
6 April 2017 to 5 April 2018	£55,986	£26,455	£24,834
6 April 2018 to 5 April 2019	£57,332	£27,993	£24,813
6 April 2019 to 5 April 2020	£66,141	£100,928	£86,147
6 April 2020 to 5 April 2021	£71,813	£80,847	£66,643
6 April 2021 to 5 April 2022	£77,620	£95,162	£80,235

4. In summary, for Robert this means:

2016/17 tax year

- Robert is likely to have sufficient carry forward available even though his PIA exceeds the standard annual allowance for the year.
- This year is also an out-of-scope tax year and even if there was not sufficient carry forward, Robert would not have to pay the annual allowance tax charge.

2019/20 to 2021/22 tax years

- The PIA exceeds the standard annual allowance, and therefore, Robert is likely to have increased annual allowance charges in these years.
- These years are in-scope and Robert will have to pay any tax charges that are due either via self-assessment or by using mandatory scheme pays.

5. The value of benefits built up in PPS 1987 would be higher for Robert than under PPS 2015. Therefore, this tax charge should be considered against the value of the benefits that he will receive.
6. Rollback means that Robert must report any annual allowances tax charges via the HMRC digital service by 31 January 2025 and make any election for mandatory scheme pays by 6 July 2025.
7. When Robert reaches retirement, he will have the option of taking PPS 2015 benefits for the remedy period, which would mean that he would be entitled to claim compensation for any overpaid annual allowance charges.

Case study 2: Impact of rollback to PPS 2006 on annual allowance

- Emma is a Chief Inspector with 8 years' pensionable service at 5 April 2014
- At 6 April 2014, Emma has pensionable salary of £54,207
- Emma continues over the next 8 years and beyond and receives ordinary and promotional salary increases
- She is full time and doesn't pay any AVCs
- Emma has no other income and her income is under the threshold income

8. Emma is a transitional PPS 2006 member, and she will have a choice when she retires as to which set of benefits she receives over the remedy period.
9. As part of rollback to the PPS 2006 her annual allowance position will be changed

Pension input period (PIP)	Pensionable salary	Pension input amount (PIA) PPS 2006 remedy benefits	Pension input amount (PIA) PPS 2015 remedy benefits
6 April 2015 to 5 April 2016	£54,207	£13,968	£14,164
6 April 2016 to 5 April 2017	£55,878	£20,435	£20,509
6 April 2017 to 5 April 2018	£55,986	£14,745	£16,239
6 April 2018 to 5 April 2019	£57,332	£15,403	£16,230
6 April 2019 to 5 April 2020	£66,141	£44,348	£36,476
6 April 2020 to 5 April 2021	£71,813	£37,370	£31,208
6 April 2021 to 5 April 2022	£77,620	£43,876	£39,099

10. In summary, for Emma this means:

2019/20 and 2021/22 tax years

- Emma is likely to have sufficient carry forward available even though her PIA exceeds the standard annual allowance for the year.

11. The value of benefits built up in PPS 2006 may be similar or slightly higher to those built up in the PPS 2015.
12. Rollback means that Emma is unlikely to face any annual allowance tax charges due to the value of benefits built up being within the annual allowance thresholds and allowing for carry forward.

Case study 3: Impact of rollback to PPS 1987 on lifetime allowance

- Casey retired at age 55 on 1 June 2022
- They had 30 years' pensionable service
- They had a pensionable salary of £83,346
- Casey had no LTA protection in place
- LTA for 2022/23 was £1,073,100

13. When Casey retired their benefits would have been assessed against the lifetime allowance. Remedy now means that Casey will get to choose a different set of benefits for the remedy period.

Option one: No commutation	PPS 1987 remedy benefits	PPS 2015 remedy benefits
Total annual pension payable	£53,234	£45,378
Value of benefits for testing against the LTA	£1,064,668	£907,553

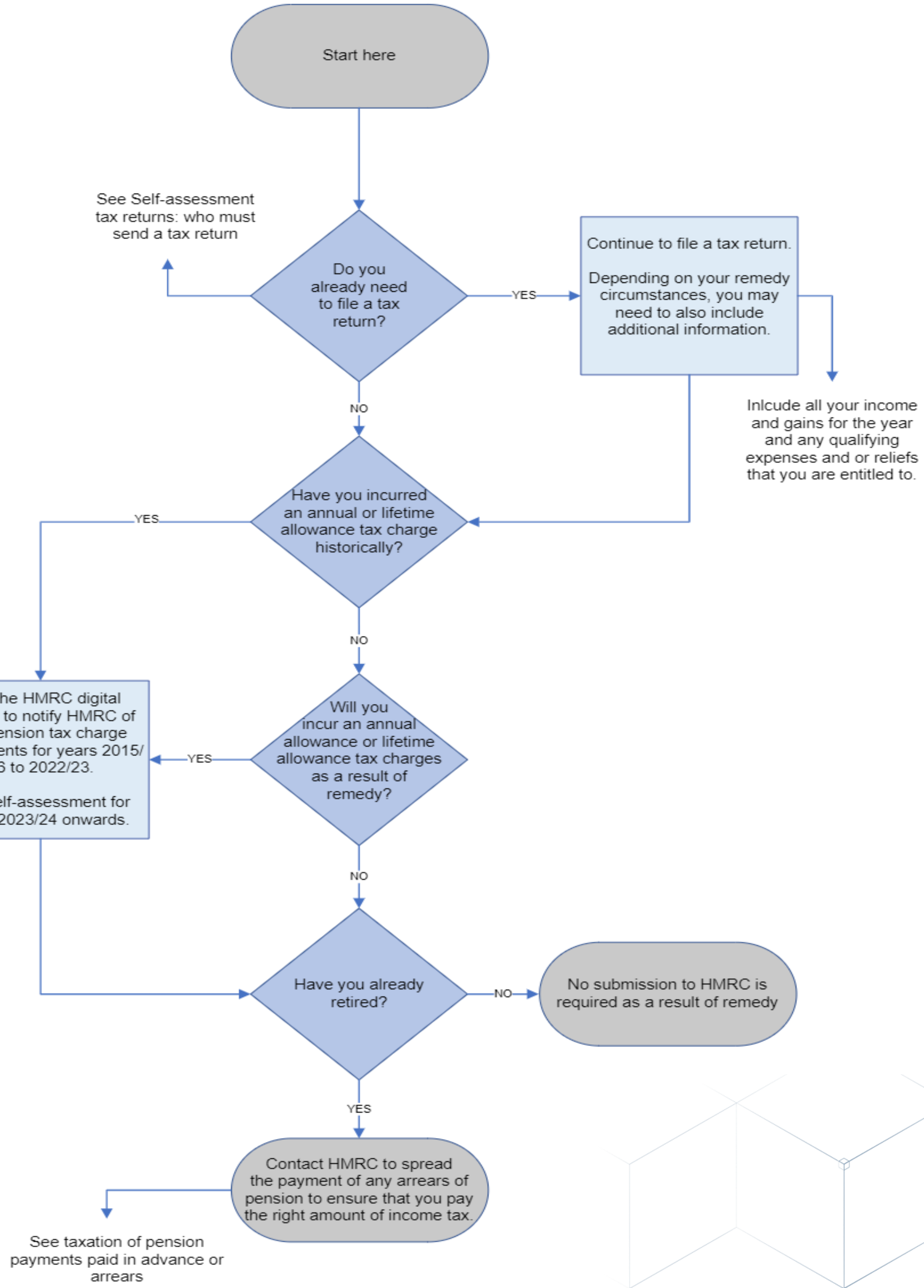
Or

Option two: Maximum tax free cash	PPS 1987 remedy benefits	PPS 2015 remedy benefits
Total annual pension payable	£44,485	£34,825
Lump sum payable	£127,289	£129,337
Value of benefits for testing against the LTA	£1,016,987	£825,843

14. If Casey elects for PPS 1987 remedy benefits, then the amount of lifetime allowance that is used will increase. In this case, as the value of Casey's benefits falls under the LTA amount they will not face a lifetime allowance tax charge.

Appendix B

Identify if submissions to HMRC are required because of remedy



Self-assessment tax returns: who must send a return – https://www.gov.uk/self-assessment-tax-returns/who-must-send-a-tax-return

Taxation of pension payments paid in advance or arrears – https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim75020

Glossary

Term	Description
Adjusted Income	Equal to your net income for the year (known as your Threshold Income) plus the value of any pensions you have built up over the year (known as your Pension Input Amount). Your Adjusted Income is tested against a prescribed limit each tax year to help determine whether you are subject to a Tapered Annual Allowance.
Annual Allowance (AA)	The maximum amount of pension you can build up each year (your Pension Input Amount) which benefits from tax relief.
Annual Allowance Charge	A tax charge on the value of any pension you have built up in excess of the Annual Allowance over the tax year. This is charged at your marginal rate of income tax for the relevant tax year.
Carry Forward	The amount of your unused Annual Allowance remaining from the three previous tax years, which can be used to offset an Annual Allowance Charge in the relevant tax year.
Consumer Prices Index (CPI)	A measure of inflation.
Lifetime Allowance (LTA)	This was the maximum value of total pension savings which you could build up over your lifetime eligible to receive tax relief. The LTA was abolished on 6 April 2024.
Mandatory Scheme Pays (MSP)	A facility by which you may ask the scheme to pay your Annual Allowance Charge. This can only be used if your Annual Allowance Charge exceeds £2,000 and your Pension Input Amount within the scheme is greater than the Standard Annual Allowance. This results in a permanent reduction in benefits.
Money Purchase Annual Allowance (MPAA)	A level of Annual Allowance which is lower than the Standard Annual Allowance, for individuals who have started to take money from a defined contribution pension pot.
Pension Input Amount (PIA)	This is the value of the pension you have built up during the tax year.

Pensions Saving Statement (PSS)	A notification letter provided to you from the scheme because you have built up pension which is greater than the Annual Allowance.
Remediable Service Statement (RSS)	A notification letter provided to you from the scheme which allows you to compare your pension benefits under both the legacy and reformed schemes. This will help you make a choice on which benefits you wish to receive in retirement.
Remedy Period	The period between 1 April 2015 and 31 March 2022.
Scheme Pays	Where a member asks the scheme to pay their Annual Allowance charge to HMRC on their behalf by making a deduction from the member's scheme benefits. This will lead to a permanent reduction in benefits from the scheme. There are two types of Scheme Pays, namely Mandatory Scheme Pays and Voluntary Scheme Pays.
Standard Annual Allowance	The term used to describe the normal Annual Allowance available to all individuals.
Tapered Annual Allowance	A level of Annual Allowance which is lower than the Standard Annual Allowance, for individuals where their Threshold Income and the Adjusted Income are higher than the respective prescribed limits.
Threshold Income	Equal to your net income for the tax year, including all taxable income from all sources but deducting the gross amount of any individual pension contributions you have made. Threshold Income is tested against a set limit to help determine whether a member is subject to Tapered Annual Allowance.
Voluntary Scheme Pays (VSP)	A facility by which you may ask the scheme to pay your Annual Allowance Charge if you do not meet the conditions for Mandatory Scheme Pays. This results in a permanent reduction in benefits.