Tax charge on pension savings and paying through the Scheme

Your questions answered

You can save as much as you like into your pension arrangements each year. However, there is a limit on the amount of pension savings that you can receive tax relief in a year – this is known as the 'Annual Allowance (AA)'. Your pension savings in all UK registered pension arrangements are taken into account. The standard rate of the AA between the 2016/17 tax year and 2022/23 tax year has been £40,000 but, from 6 April 2023, the standard rate of AA increased to £60,000. In practice, however, the AA applicable to you will depend on several factors, including your income and whether you have started to receive your DC benefits.

Money Purchase Annual Allowance - applies if you have already taken your DC benefits in certain ways

In broad terms, once you have started to withdraw your DC benefits, any DC contributions made by you or on your behalf to the Scheme, or to any other money purchase pension arrangement, are then tested against a Money Purchase Annual Allowance (MPAA). This was £4,000 for the 2022/23 tax year but has increased to £10,000 for the 2023/24 tax year. If the total amount of your DC contributions (to all pension arrangements) is higher than the MPAA, any other non-DC pension savings are then tested against a reduced AA, the 'alternative AA' (£50,000 for the 2023/24 tax year). If this applies to you then certain references in this leaflet to 'AA' should also be read as 'MPAA'.

Tapered annual allowance – applies to high-income individuals

The tapered annual allowance (TAA) was introduced from 6 April 2016 for high-income individuals. The definition of a high-income individual is not straightforward. However, in broad terms, the TAA applies to anyone with income (from any source, including savings and dividends, and also including the value of pension contributions) of more than £260,000 for the 2023/24 tax year (£240,000 for the 2022/23 tax year), but subject to an income floor of £200,000 (excluding the value of pension contributions).

Whilst the information provided in this leaflet is believed to be correct, it remains your responsibility to check your own tax position. The Trustee is not able to provide tax advice and the Trustee does not accept responsibility for any loss arising as a result of reliance on the contents of the document.

Glossary

AA	Annual Allowance
HMRC	HM Revenue & Customs
MPAA	Money Purchase Annual Allowance
PIA	Pension Input Amount
PIP	Pension Input Period
TAA	Tapered Annual Allowance

Please note: it is your responsibility to check your pension savings under any other pension arrangements you may have as these could affect your tax charge.

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For active DC members of the HSBC Bank (UK) Pension Scheme

If you are affected by the TAA, for the 2022/23 tax year the AA is reduced from £40,000 to a minimum of £4,000 on the basis of a reduction of £1 to the AA for every £2 by which your income exceeds £240,000. For the 2023/24 tax year, the AA is reduced from £60,000 to a minimum of £10,000 on the basis of a reduction of £1 to the AA for every £2 by which your income exceeds £260,000. As a result, if you have an income of £360,000 or more, you will be entitled to an AA of £10,000 for the 2023/24 tax year, and if you have an income of £312,000 or more for the 2022/23 tax year, you will be entitled to an AA of £4,000.

If you are subject to both the TAA and the MPAA rules, in the event that your total DC pension contributions exceed the MPAA, the alternative AA applying to non-money purchase pension savings will be reduced under the TAA rules – subject to a maximum reduction of £50,000 for the 2023/24 tax year and £36,000 for the 2022/23 tax year. This means that if you as a high-income individual are subject to the minimum reduced AA and have triggered (and used up the whole of) the MPAA, you will have zero alternative AA in that year.

If your savings in any tax year exceed the AA (including the MPAA or alternative AA, where applicable), a tax charge on the excess may be due. **This is known as the annual allowance charge (tax charge).**

The Scheme Administrator, WTW on behalf of the Trustee calculates your pension savings to your DC pension pot under the Scheme for each **Pension Input Period (PIP).** The PIP is the 12-month period over which the increase in your pension savings is considered for checking against the AA. The PIP for the Scheme is the same as the tax year – 6 April – 5 April. The increase in your pension savings to your DC pension pot during this period is your **Pension Input Amount (PIA).** This amount is tested against the AA to check whether you may have a tax charge due in relation to your pension savings under the Scheme. If you do, you can pay this either directly to **HM Revenue & Customs (HMRC)** or, if eligible, through either the mandatory or voluntary **'Scheme Pays'** facility.

The remainder of this leaflet gives you more explanation about the above. It also answers some Scheme specific and general questions you may be asking. However, there is a lot more information available that may be helpful to you, see **'Where can I get more information?'** at the end for details. This leaflet is based on the Trustee's current understanding of the relevant law and tax position as at June 2024.

How are my Scheme benefits tested against the AA?

Each year your PIA is broadly the total of any pension contributions paid by you, or on your behalf, to the Scheme during the PIP. This is tested against the AA for the tax year when the PIP ends.

Your PIA to the Scheme for the previous tax year will be made available to view online on My Pension, normally from the end of June of the following tax year. In addition, if you exceeded the standard AA or were subject to, and exceeded, the MPAA in that tax year, your pension savings statement will be available to view online at the same time.

A pension savings statement is a statement provided to you if your total pension savings to your DC pension pot exceed the standard AA or you have triggered the MPAA. The statement shows the aggregate of your PIAs for the relevant PIP under the Scheme.

As this is a personal tax, it's your responsibility to check your PIA each year.

If my Scheme PIA is less than my AA, will I have to pay a tax charge?

If you have pension savings in other arrangements these will also be tested against the AA in a single year. This could result in you having to pay a tax charge, even if your PIA from the Scheme does not trigger a tax charge.

It's your responsibility to obtain information about your pension savings under other arrangements and work out whether you will be subject to a tax charge. For more information go to: **www.gov.uk/tax-on-your-private-pension/annual-allowance** and look at 'Pay tax if you go above the Annual Allowance'.

How do I know if I have a tax charge?

If your PIA from the Scheme is over the standard AA (or over the MPAA, if this applies to you), your pension savings statement is available online at **My Pension.** This will show if you have a tax charge due under the Scheme. You are able to carry forward any unused AA from up to three previous tax years.

For the tax year 2023/24 you can also take into account any unused AA in 2020/21, 2021/22 and 2022/2023.

The amount you can carry forward from a previous tax year will also depend on whether you were subject to the TAA or MPAA provisions in that tax year. In summary:

- If you were subject to and exceeded the MPAA in a previous tax year, you can carry forward unused alternative AA from that tax year;
- If you were subject to the TAA in a previous tax year, you can carry forward unused TAA from that tax year.

Your pension savings statement will provide information on previous years' PIAs and standard or alternative AA figures, which should help you to work out if you have any unused AA which you can carry forward (though if you have made pension savings under other arrangements, these will also have used up AA, and this information will not be shown on your Scheme pension savings statement).

If you have a tax charge then you need to work out how much that is. Tax will be charged at the income tax rate that applies to you.

Can I elect to pay my tax charge from my Scheme benefits?

Yes. The Scheme offers both a mandatory and a voluntary 'Scheme Pays' facility.

What is mandatory 'Scheme Pays'?

In order to use "Scheme Pays", your AA tax charge must be over £2,000 and your pension savings with the Scheme must be over £40,000 for the 2022/23 tax year, or £60,000 for the 2023/24 tax year. This is the case even if you are subject to the TAA.

Your DC pension pot is reduced to take account of the tax charge paid.

If you have triggered the MPAA and incur an AA tax charge, the Scheme is only obliged to use your DC pension pot to pay the charge via mandatory 'Scheme Pays' if:

- your contributions to the Scheme exceeded £60,000 in the 2022/23 tax year and
- the AA tax charge would have exceeded £2,000 if the standard AA had applied to you.

If the conditions for mandatory 'Scheme Pays' are met, this does not automatically mean that the whole of the tax charge can be paid out of your DC pension pot in the Scheme. If the tax charge relates to a combination of your Scheme pension savings and benefits in other pension arrangements, only the part of the charge which relates to your Scheme contributions can be paid from the Scheme under mandatory 'Scheme Pays'.

If you do not fall within the above category, you may still be able to pay an AA tax charge from your DC pension pot in the Scheme. This is known as voluntary 'Scheme Pays' (see below) and is at the Trustee's discretion. Alternatively, you will need to pay the amount due direct to HMRC yourself.

What is voluntary 'Scheme Pays'?

The Scheme offers a voluntary 'Scheme Pays' facility to members who do not meet the statutory criteria set out above and so can't use the mandatory 'Scheme Pays' facility. This voluntary facility is available upon member request and at the discretion of the Trustee. It will be available to you if you have incurred an AA tax charge but only in relation to charges arising from your pension savings in the Scheme.

Your Scheme benefits are reduced (your DC pension pot) to take account of the tax charge paid.

The Trustee's current policy is to only permit voluntary 'Scheme Pays' in the following circumstances:

- your AA tax charge is more than £2,000; and
- you are subject to the TAA.

The Trustee may exercise its discretion to withdraw the voluntary 'Scheme Pays' facility, or amend the terms on which it is available, at any time.

If I do not want to use 'Scheme Pays', how do I pay my tax charge?

Your tax charge would be paid by you to HMRC direct through your Self-Assessment.

Can I cancel my election for 'Scheme Pays'?

NO!

Once you complete and return your 'Scheme Pays' election form to WTW and tell HMRC the Scheme is paying your tax charge, you can't change your mind.

Very important!

You must make sure you want to go ahead with 'Scheme Pays' before you send back your election form and tell HMRC.

What do I need to do to pay my tax charge from my Scheme benefits?

You need to review your pension savings statement, as this will provide information on previous years' PIAs and standard or alternative AA figures, which should help you to work out if you have any unused AA which you can carry forward. Please note that if you have made pension savings under other arrangements, these will also have used up AA, and this information will not be shown on your Scheme pension savings statement.

You should think about taking independent financial advice before considering using the 'Scheme Pays' facility (see 'Where can I get more information?'). **The Trustee and the Employer cannot give you any financial advice.**

If you then decide to use 'Scheme Pays', follow the next three steps:

1. Calculate your tax charge, see 'How do I know if I have a tax charge?' on page 3.
2. Complete and return either the 'Mandatory Scheme Pays Member Election Form' within the deadline (see table on page 5), or the 'Voluntary Scheme Pays Member Election Form' (where applicable).

   You can download a form from the Information Centre at: **https://futurefocus.staff.hsbc.co.uk/** Alternatively, you can get a form by contacting the HSBC Administration Team. The details are shown on the last page.
3. Tell HMRC that you have a tax charge and intend using 'Scheme Pays' by completing and returning/submitting (if online) a Self-Assessment tax return. It's your responsibility to make sure any tax charge due is paid. For more information go to: **www.gov.uk/tax-on-your-private-pension/annual-allowance**

You will need to follow this process each year if you want to use 'Scheme Pays'.

Remember: you can only elect to pay from your Scheme benefits if your total AA tax charge is £2,000 or more and your pension savings under the Scheme for the relevant period are more than £60,000, or if the Trustee allows you to use the voluntary 'Scheme Pays' on your request. (See the contact details on the last page of this leaflet.) Alternatively, you will need to pay the amount due direct to HMRC yourself.

If I pay through 'Scheme Pays', do I still tell HMRC?

Yes, you are responsible for telling HMRC that you have a tax charge. You must complete and return/submit a Self-Assessment tax return, (see 'Where can I get more information?') and confirm that you are using 'Scheme Pays'.

How is my tax charge paid from my Scheme benefits and when?

A debit will be made from your DC pension pot by selling enough units (taken equally from each fund) to cover the tax charge due. You will be able to see the debit and the number of units sold on My Pension once it has been completed.

Example:

Mr Smith and his employer paid contributions of £76,000 in the Scheme PIP 6 April 2023 to 5 April 2024. This has resulted in Mr Smith having a PIA over the AA of £16,000, having taken into account any unused AA from previous tax years. Mr Smith is liable to a tax charge on this PIA at his highest marginal rate of tax.

Assuming Mr Smith's highest marginal rate of tax is 40%, the tax charge due to HMRC is £6,400. Mr Smith elects to use 'Scheme Pays' to pay this tax charge.

The value of Mr Smith's DC pension pot will be reduced to cover this tax charge – see section opposite.

The Scheme Administrator, WTW, on behalf of the Trustee, will pay the tax charge due to HMRC in the following quarterly Accounting Period for Tax submission after receipt and processing of your completed 'Scheme Pays Member Election Form'. They will write to you to confirm this.

What are the timescales if I use 'Scheme Pays' for my tax charge?

Mandatory Scheme Pays

The highlighted columns in the table below show you what you must do and by when if you want to use mandatory 'Scheme Pays'.

You should look at your annual pension savings statement which covers the relevant PIP below to work out the timescales which apply each year.

Tax Year	Scheme's PIP	Latest date you must declare your tax charge on your Self-Assessment tax return	Latest date WTW must receive your completed 'Scheme Pays' election form	Latest date the Scheme must pay your tax charge to HMRC
2022/2023	06/04/2022 - 05/04/2023	31/01/2024	31/07/2024	14/02/2025
2023/2024	06/04/2023 - 05/04/2024	31/01/2025	31/07/2025	14/02/2026
2024/2025	06/04/2024 - 05/04/2025	31/01/2026	31/07/2026	14/02/2027

Voluntary Scheme Pays

There is no statutory deadline for making an election for voluntary 'Scheme Pays'. The deadline for paying the AA tax charge by voluntary 'Scheme Pays' is 31 January following the end of the tax year in which the charge arises (eg if the tax charge arose in the 2023/24 tax year the statutory deadline for paying the tax charge would be 31 January 2025). In order for the Scheme to make by payment by 14 February 2024 WTW require the Voluntary Scheme Pays form by 31 October 2023. You should note that this is a far shorter period than for mandatory 'Scheme Pays'.

Interest will accrue from 1 February following the end of the Self-Assessment period to the date the charge is paid – this interest will remain your sole liability.

What happens if I calculate my tax charge incorrectly?

If you find you've not calculated your tax charge correctly, in some circumstances you may be able to amend your original 'Scheme Pays' election. However, once your benefits have come into payment you cannot amend your original election to increase the amount of tax charge payable unless your benefits can be adjusted accordingly.

If you think you may need to do this, please discuss this issue with your financial adviser/HMRC and then contact WTW at the address shown on the last page of this leaflet. To the extent that the Scheme incurs any additional expenses as a result of your error, the Trustee may seek to recover these from you.

More information can also be found on HMRC website.

What happens if I want to take my pension benefits?

You've elected to pay some or all of your tax charge through 'Scheme Pays'. If you decide to take your benefits from the Scheme, these will not be paid to you until WTW have completed your election and made the relevant deduction from your DC pension pot.

You should let WTW know as soon as possible if you want to use 'Scheme Pays' in the year of your retirement, so that the 'Scheme Pays' process can be implemented in time.

The Scheme will have to make the debit from your DC pension pot before you become entitled to receive it.

Will I be told what my Scheme PIA is each year?

Yes, your PIA for the Scheme for the previous tax year will be made available to view online, normally from June each year. If you've exceeded the standard AA (or if you're subject to and have exceeded the MPAA) then you'll also have a pension savings statement available online at the same time.

Can I pay any other tax charge by Scheme Pays?

No, you can only pay an AA tax charge by 'Scheme Pays'.

Will any benefits payable to my spouse/civil partner/dependant on my death be reduced?

The DC spouse's/civil partner's/dependant's pension if you die as an active member will not be affected. However, the cash lump sum will be reduced as a result of the debit(s) from your DC pension pot.

Where can I get more information?

HM Revenue & Customs (HMRC)

HMRC website gives you guidance and has a number of links under its 'Further Information' section including:

- Basic guide to how the annual allowance will work
- How does the reduced annual allowance affect me?
- Telling HM Revenue & Customs
- Overseas pension schemes
- Paying an AA charge from pension savings

Go to: **https://www.gov.uk/tax-on-your-private-pension/annual-allowance**

Tax Agents and Advisers

Go to: **www.hmrc.gov.uk/agents/**

Independent Financial Adviser (IFA)

Neither the Trustee nor your employer can give you financial advice. We recommend that you consult with an IFA in relation to any financial questions or concerns. For more information go to the MoneyHelper website at **https://www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser**

HSBC Bank (UK) Pension Scheme

If you have any queries or would like to be pointed in the right direction for information you can contact the Scheme Administrator at:

HSBC Administration Team
WTW,
PO Box 652,
Redhill, Surrey RH1 9AL

Telephone: 01737 227575

Email:
HSBCpension@willistowerswatson.com

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