Tax charge on pension savings and paying through the Scheme

Your questions answered

You can save as much as you like into a pension arrangement each year. However, there is a limit on the amount of pension savings that you can receive tax relief on – this is known as the 'Annual Allowance (AA)'. Your pension savings in all UK registered pension arrangements are taken into account. The standard AA rate is £40,000 but, in practice, this can depend on many factors. For example, if you have taken any money purchase or defined contribution (DC) benefits flexibly (for example, as a taxed lump sum or through drawdown) the way the AA works for you changed with effect from 6 April 2015.

In broad terms, once you have flexibly accessed your DC benefits any defined contributions made by you or on your behalf to the Scheme, or to any other money purchase arrangement, are then tested against a money purchase annual allowance (MPAA) of £4,000. Any other non-DC pension savings are tested against a reduced AA, the 'alternative AA' (currently £36,000). **If this applies to you then certain references in this leaflet to 'AA' should also be read as 'MPAA'**.

The position changed further from 6 April 2016 when the tapered annual allowance (TAA) was introduced for high income individuals. The definition of a high income individual is not straightforward. However, in summary the TAA applies to anyone with income (from any source) of more than £240,000 (including the value of pension contributions), but subject to an income floor of £200,000 (excluding the value of pension contributions). The TAA changed on 6 April 2020. Previously the TAA applied to anyone with income (from any source) of more than £150,000 (including the value of pension contributions), but subject to an income floor of £110,000 (excluding the value of pension contributions).

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 hybrid members of the HSBC Bank (UK) Pension Scheme

If you are affected by the TAA, 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. As a result, if you have an income of £312,000 or more you will be entitled to an AA of £4,000.

If you have flexibly accessed any pension benefits and are therefore subject to the MPAA, the alternative AA applying to non-money purchase pension saving will be reduced in the same way as the TAA – subject to a maximum reduction of £36,000. This means that if you, as a high income individual are subject to the minimum reduced AA of £4,000, and have triggered the MPAA, you will have zero alternative AA in that year.

If your savings exceed the AA for any tax year a tax charge on the excess may be due. **This is known as the annual allowance charge (tax charge).**

The Scheme Administrator, Willis Towers Watson (WTW) on behalf of the Trustee calculates your pension savings under the Scheme for each **Pension Input Period (PIP).** As a result of the 2015 summer budget the PIP was aligned to the tax year. The increase in your pension savings during this period is your **Pension Input Amount (PIA).** This amount is tested against the AA to check if you have a tax charge due under the Scheme.
If you do, you can pay this either directly to **HM Revenue & Customs (HMRC)** or, if eligible, through either the voluntary or mandatory **'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 2020.

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, normally from the end of June of the following tax year. In addition, if you exceeded the standard AA of £40,000 or triggered 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 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 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 (but not unused MPAA) from up to three previous tax years.

For the tax year 2019/20 you can also take into account any unused AA in 2016/17, 2017/18 and 2018/19.

The position is more complicated if you are subject to the TAA or MPAA. In summary:

- if you are subject to the MPAA you can carry forward an amount by reference to the alternative AA that applied in the previous tax year in which the MPAA applied to you (unused MPAA cannot be carried forward);
- if you are subject to the TAA you can carry forward an amount calculated by reference to the TAA that applied in the previous tax year in which the TAA applied to you.

Unused AA can only be rolled over if it hasn't been used up in any intervening tax years. Your pension savings statement will show any unused AA if you have exceeded the standard AA.

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'?

This is broadly a facility that enables you to pay your Scheme AA tax charge from the Scheme to HMRC when it is £2,000 or more and your pension savings to your DC pension pot under the Scheme for the relevant period are more than the standard AA for that tax year (£40,000 for the 2020/21tax 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 £40,000 in the tax year and
- the AA tax charge would have exceeded £2,000 if the standard AA had applied to you.

If the tax charge is £2,000 or more, and your savings under the Scheme for the relevant period are more than £40,000 but due from a combination of your Scheme and other pension arrangement benefits, then only the part that relates to your Scheme PIA can be paid out of your HSBC Scheme benefits via 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 first) 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.

Should I ask what my reduction in pension benefits will be before I elect for Scheme Pays?

YES!

You must contact WTW to tell them you are thinking about using 'Scheme Pays' and ask them what reduction will be applied to your Scheme benefits as a result of paying your tax charge in this way – for an estimate call: **01737 227575** or email: **HSBCpension@willistowerswatson.com**

See the example in question '**How is my tax charge paid from my Scheme benefits and when?'** on page 5.

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 include any unused AA (but not unused MPAA which you cannot carry forward) from the last three tax years.

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 6), or the 'Voluntary Scheme Pays Member Election Form' (where applicable).

   You can download a form from the Information Centre at: **www.futurefocus.staff.hsbc.co.uk/hybrid-home/library.** 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 £40,000, or if the Trustee permits the use of voluntary 'Scheme Pays' on your request. 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?

Important – before you elect for 'Scheme Pays' please get an estimate from WTW so you know what the potential reduction in your Scheme benefits might be.

If you decide to pay any tax charge due though the 'Scheme Pays' facility, it will come from your DC pension pot first. Any residual amount of tax due will result in a debit being applied to your DB pension.

If a debit is applied to your DB pension as a result of the tax charge paid by the Trustee, it will be applied to the amount of DB pension payable to you at age 65. This will reduce both your and your spouse's overall DB pension benefits (see question on page 6 – 'Will any benefits payable on my death to my spouse/civil partner be reduced?'). The debit will be applied to that part of the DB pension you built up from 1 July 2009 to 30 June 2015. If that is used up it will then be applied to the DB pension you built up before this date.

Factors produced by the Scheme Actuary from time to time will be used to calculate the amount of debit to be applied to your DB pension at age 65. The final debit will be calculated taking your age attained (years and lower month to count) on the date of receipt of your completed 'Scheme Pays Election Form'.

As factors and market conditions will vary from member to member, the example opposite is purely for illustration purposes only and in no way should you rely on the factors when considering your circumstances.

Example 1 – DC pension pot covers tax charge

For illustration purposes only (based on the process for mandatory 'Scheme Pays')

Mr Smith

Date of birth: 24 September 1960 NRA: 65

Tax year in which the tax charge arises: 2019/20

Age attained when mandatory 'Scheme Pays' form received on 1 August 2020: 60 years 10 months

Mr Smith's pension savings statement shows he has a PIA over the AA and based on his tax rate of 40% his tax charge due to HMRC is £15,144.

Mr Smith elects to use 'Scheme Pays' to pay his tax charge.

The value of Mr Smith's DC pension pot when the mandatory 'Scheme Pays' form is received on 1 August 2020 is £16,250. As the value of his DC pension pot is higher than the amount of tax charge Mr Smith has elected to pay through the 'Scheme Pays' facility, the tax charge is deducted from the value of his DC pension pot, leaving him with a reduced fund value of £1,106.

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.

Example 2 – DC pension pot does not fully cover tax charge

For illustration purposes only (based on the process for mandatory 'Scheme Pays'):

Mr Smith

Date of birth: 24 September 1960 NRA: 65

Tax year in which the tax charge arises: 2019/20

Age attained when mandatory 'Scheme Pays' form received on 1 August 2020: 59 years 10 months

Mr Smith's pension savings statement shows he has a PIA over the AA and based on his tax rate of 40% his tax charge due to HMRC is £15,144.

Mr Smith elects to use 'Scheme Pays' to pay his tax charge.

The value of Mr Smith's DC pension pot when the mandatory 'Scheme Pays' form is received on 1 August 2020 is £10,500. As the value of his DC pension pot is lower than the amount of tax charge Mr Smith has elected to pay through the 'Scheme Pays' facility, the full value of Mr Smith's DC pension pot is disinvested to cover as much of the tax charge as possible, leaving a remaining tax charge of £4,644 (£15,144 - £10,500).

The remaining £4,644 is to be converted into a debit and applied to his DB pension accrued between 1 July 2009 and 30 June 2015.

Assuming a factor of 18.17*, the debit applied to Mr Smith's DB pension at age 65 will be £4,644 divided by 18.17, reducing his pension by £256 a year at age 65.

*Illustrative factor only. The actual factors used are dependent on your age and are subject to amendment from time to time, so it is essential that you ask Willis Towers Watson for a personalised calculation if you need to know what factor might be applied to your benefits.

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.

The debit applied to your DB pension as a result of 'Scheme Pays' will show on your annual benefit statement produced in the Scheme year in which the tax charge was paid.

Is the amount of DB debit fixed?

Yes, the DB debit is a fixed amount applied to your DB pension at age 65.

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

The DC spouse's/civil partner's pension if you die as an active hybrid member is not affected. However, the cash lump sum will be reduced as a result of the debit(s) from your DC pension pot. If your DB pension is subject to a pension debit, the DB spouse's/civil partner's pension will be based on the reduced amount.

For more information contact WTW; their details are shown on the last page.

By applying the debit, how does this affect my future pension increases?

Firstly, your debit will be applied to your DB pension earned from 1 July 2009 to 30 June 2015 until it's used up. As you know, increases on your DB pension accrued from 1 July 2009 have a maximum limit of 3% a year.

Once this is used up, your debit will be applied to your DB pension built up before 1 July 2009 which increases to a maximum limit of 5% a year.

Any increases will be applied to the debited amount of your pension.

What if I paid 3% to retain my earliest age to receive an unreduced DB pension that applied before 1 April 2010?

If this is the case the debit will be applied in the same way as in example 2. If you decide to retire at your earliest age, the fixed amount of debit will be reduced in line with the retirement factors in place at the time.

What if I decide to retire before or after age 65?

The fixed amount of debit will be reduced or increased in line with the retirement factors in place at the time you decide to take your DB pension. This is to reflect the fact it is being applied before or after age 65.

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

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 statement which covers the relevant PIP below to work out the timescales which apply each year. 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 2019/20 tax year the statutory deadline for paying the tax charge would be 31 January 2021). You should note that this is a far shorter period than for mandatory 'Scheme Pays'.

In order to meet this statutory deadline, WTW would need the voluntary Scheme Pays form by 31 October 2020.

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.

Tax Year	Scheme's PIP	Latest date you must declare your tax charge on your Self-Assessment tax return	Latest date Willis Towers Watson must receive your completed 'Scheme Pays' election form	Latest date the Scheme must pay your tax charge to HMRC (if your completed election was received in time)
2018/2019	06/04/2018 – 05/04/2019	31/01/2020	31/07/2020	14/02/2021
2019/2020	06/04/2019 – 05/04/2020	31/01/2021	31/07/2021	14/02/2022
2020/2021	06/04/2020 - 05/04/2021	31/01/2022	31/07/2022	14/02/2023

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 pension benefits.

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 process the reduction to your benefits before you become entitled to receive them.

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.

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 this page. 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.

Will I be told what my 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 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'.

Where can I get more information?

HM Revenue & Customs (HMRC)

HMRC website gives you information and guidance about the Annual Allowance and how it applies. Go to: **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 Money Advice Service website at **www.moneyadviceservice.org.uk/en/articles/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
Willis Towers Watson, PO Box 652,
Redhill, Surrey RH1 9AL

Telephone: 01737 227575
Email:
HSBCpension@willistowerswatson.com

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June 2020

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