



Pensions lifetime and annual allowance

The impact on the NHS



Introduction

The tax implications of the lifetime and annual allowance on clinicians who are members of the NHS pension scheme has been in the press since early 2019. It has also been raised in debates in the House of Lords and the House of Commons. As a result, on 21 May 2019, the Chancellor announced¹ that HM Treasury and the Department of Health and Social Care (DHSC) would consider how to provide additional pension flexibility for NHS doctors affected by the annual allowance tax charge. A number of proposals were made during 2019 to change the NHS pension scheme or the tax regime². In the March 2020 Budget, the Chancellor announced a change to the thresholds but no wider changes to the existing arrangements.

This 'How it works' briefing sets out the background to the issue and points members at useful guidance. The briefing does not include any advice as the HFMA does not provide financial or pension advice.

While every care had been taken in the preparation of this briefing, the HFMA cannot in any circumstances accept responsibility for errors or omissions and are not responsible for any loss occasioned to any person or organisation acting or refraining from action as a result of any material in it.

¹ House of Commons, *Oral answers to questions*, 21 May 2019

² A timeline of the various proposals made between May 2019 and March 2020 is included in the background section of this briefing.

Overview

Since early 2019, there have been a number of articles in the press about the NHS pensions crisis and clinics being cut as a result of doctors leaving the NHS. The British Medical Association (BMA) is lobbying the government for changes to the NHS pension scheme or the current tax rules, arguing that the impact on NHS services is an unintended consequence of the recent changes to the tax legislation.

The issue at the heart of this debate is the limit to the contribution that individuals can make to their pension scheme each year and the size of the pension pot without being subject to tax – the annual allowance and the lifetime allowance. The annual allowance was significantly reduced in 2011, but in 2016 it was subject to a taper which means that more highly paid individuals are being impacted and are having to pay additional tax. The annual allowance and lifetime allowance are applicable to everyone paying tax in the UK – this is not an NHS specific issue or even a public sector specific issue. The press and social media coverage was mainly focused on the impact on clinicians, but other long-serving senior managers in the NHS and the wider public sector are equally affected.

The arrangements for calculating the contribution made by an individual to a defined benefit scheme, such as the NHS pension scheme, are complicated. It is possible to for individuals to forecast the impact of the annual allowance, but it is a difficult and technically challenging calculation. See Exhibit 1 for a definition of the different types of pension scheme.

The issue currently being debated is in relation to the annual allowance, so this briefing focuses on that specific aspect. It is possible that, once an individual goes over the annual allowance, the amount of tax that is due in the year can be more than the pay increase that caused that individual to breach the annual allowance – negating the pay increase. More often, it means that additional work or a pay rise is effectively being taxed at a much higher rate than the current highest rate of income tax.

As a result, some clinicians are refusing to take on additional clinics or managerial duties, taking early retirement, or are seeking a reduction in working hours. Other senior managers may be refusing promotions or pay rises.

This briefing sets out:

- the background to the issue
 - timeline
 - tax arrangements
 - the NHS pension scheme
- the impact that the issue is having on individuals and the NHS
- possible action that can be taken to resolve the issue.

The briefing does not include any worked examples or provide any advice – the HFMA cannot provide personal financial or tax advice - instead it signposts where worked examples and advice can be found.

Exhibit 1: What are the different types of pension schemes?

Defined contribution schemes

IAS 19 *Employee benefits* defines defined contribution schemes as:

‘post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.’

Defined benefit schemes are any other post-employment benefit plans.

In practical terms, the amount of benefits paid on retirement from a defined contribution scheme (also called a money purchase scheme) will be based on the amount of money that has been paid into the scheme, how long it has been invested, what the investment returns are and the level of charges. Most private sector pensions are now defined contribution schemes – some will have legacy defined benefit schemes which are closed to new members.

Defined benefit schemes

There are lots of different types of defined benefit schemes but, in summary, the amount of benefit paid on retirement is linked to the amount of money the employee is earning on or around retirement and the length of membership in the scheme. In a final salary scheme, the amount of pension is a proportion based on the number of years membership in the scheme (typically 1/60th or 1/80th for each year of membership) of the final salary being earned at the date of retirement. The final salary will be defined on a scheme by scheme basis and may not necessarily be the actual salary being paid on the date of retirement. In an average earnings scheme, the pension is linked to an average of the salary being earned a number of years before retirement.

Hybrid schemes

To complicate matters further, there are also hybrid schemes which have characteristics of both types of scheme. These schemes tend to share the risk of paying higher costs or receiving reduced benefits between employees and employers whereas defined contribution schemes are a risk for the employee and defined benefit schemes for the employer.

Background to the issue

Timeline

21 May 2019	The then Chancellor announced that HM Treasury and the Department of Health and Social Care (DHSC) were considering how to provide additional pension flexibility for NHS doctors affected by the annual allowance tax charge
22 July 2019	A consultation was launched which would introduce 50:50 flexibility to the NHS pension scheme
7 August 2019	A proposed new consultation ³ was announced to replace the July consultation
September 2019	NHS Employers issued <i>Pension tax guidance for employers</i> ⁴ intended to help NHS bodies take local measures to tackle the issue in 2019/20

³ DHSC and HM Treasury, ***NHS pensions for senior clinicians: new changes announced to improve care***, 7 August 2019

⁴ NHS Employers, ***NHS pensions tax guidance***, September 2019

11 September 2019	The new consultation ⁵ was published
1 November 2019	Consultation closed – HFMA response ⁶ submitted
22 November 2019	Simon Stevens and Amanda Pritchard wrote to professional bodies and NHS bodies ⁷ with a proposal to mitigate the problem for 2019/20
11 March 2020	The Chancellor announced changes to the two tapered annual allowance thresholds in the March 2020 Budget ⁸ . Proposals to offer greater pay in lieu of pensions for senior clinicians in the NHS pension scheme will not be taken forward.

Tax relief on pension contributions

Payments into pension schemes are a tax efficient way to save. Contributions paid into pensions are subject to tax relief subject to the following limits⁹:

- 100% of earnings in a year
- the annual allowance (for 2020/21, £40,000 a year)
- the lifetime allowance (for 2020/21, £1,073,100).

As is the case with all pensions, payments out of the NHS pension scheme are subject to tax.

Annual allowance on pension savings benefiting from tax relief

Since 2006, an individual's ability to make tax-free contributions to a pension scheme has been subject to the annual allowance¹⁰. Once that allowance has been reached, the individual is subject to an annual allowance charge which is calculated as part of their tax return. It is the individual's responsibility to submit a tax return if they are liable for the annual allowance charge and then to pay the tax due.

For defined contribution schemes, the allowance is a limit on the amount that can be paid into the pension scheme by the individual or their employer. For defined benefit pension schemes, like the NHS pension scheme, the limit is on the value of the increase in the pension built up over the pension input period¹¹. This cannot be calculated by the individual without information provided by the pension scheme.

The annual allowance was originally £215,000 and rose to £255,000 in 2010. In the 2010 Budget the then government announced that the changes to the regime would be subject to informal consultation. In 2010, it was announced that the annual allowance would be reduced to £50,000¹² and ¹³. Since 2014 it has been reduced further to £40,000¹⁴.

⁵ DHSC, *NHS pension scheme: increased flexibility – consultation document*, updated September 2019

⁶ HFMA, *Consultation response on NHS pension scheme: increased flexibility*, November 2019

⁷ NHS England, *Action on 2019/20 pension tax impacts: Letters from Simon Stevens and Amanda Pritchard*, November 2019

⁸ HM Treasury, *Budget 2020: documents*, March 2020

⁹ HMRC, *Pension schemes rates*, accessed 20 April 2020

¹⁰ *Finance Act 2004*, section 227

¹¹ From 2016/17, the pension input period is typically the tax year but can be less where the individual joins a scheme part way through a year. It will always end on 5 April as this is the last day in the tax year. In 2015/16 there were transitional arrangements to change pension input periods from being based on the date that the individual joined the scheme to being based on the tax year.

¹² HM Treasury, *Government announces further details about changes to pensions tax relief*, 3 March 2011

¹³ HM Treasury, *Financial Secretary to the Treasury announces changes to restricting pensions tax relief*, 14 October 2010

¹⁴ HMRC, *Pension schemes rates*, updated 8 April 2020

Taper on the annual allowance

In the Summer 2015 Budget¹⁵, the then government announced that a taper to the annual allowance for those with adjusted annual incomes¹⁶, including their own and employer's pension contributions, of over £150,000 would be applied from April 2016:

‘For every £2 of adjusted income over £150,000, an individual's annual allowance (the limit on the amount of tax relieved pension saving that can be made by an individual or their employer each year) will be reduced by £1, down to a minimum of £10,000.

To ensure this measure is focused on the higher and additional rate tax payers who currently gain the most benefit from pensions tax relief, those with income, excluding pension contributions, below a £110,000 threshold will not be subject to a tapered annual allowance. Only 1% of taxpayers exceed this threshold and save into pensions, and even fewer will actually be affected by this measure.’

In the March 2020 Budget, the government announced that ‘those individuals with a threshold income of between £110,000 and £200,000 and adjusted income between £150,000 and £240,000 will no longer be impacted by the tapered annual allowance.’ The change to the thresholds applies from 5 April 2020.

The impact assessment accompanying the March 2020 Budget¹⁷ states that an estimated 250,000 individuals currently affected by the tapered annual allowance will no longer be impacted. The original impact assessment in 2015¹⁸ anticipated that around 300,000 pension savers were expected to have net incomes of at least £110,000 and therefore could be affected by this measure – based on both impact assessments only 50,000 individuals are expected to continue to have to pay tax as a result of their pension arrangements. However, for that small remaining number, the minimum tapered allowance will decrease from £10,000 to £4,000. Only those earning more than £300,000 are expected to see an impact from these revised thresholds.

In 2015, it was expected that there would be some change in behaviour in response to the changes:

- individuals and employers would reduce pension contributions which would be in excess of the annual allowance. This would increase the amount of income subject to income tax
- individuals in the taper region (between £150,000 and £210,000) would reduce their incomes in response to the taper.

Both of these changes were seen in the NHS – members were unable to change their contributions to the NHS pension scheme but did leave the scheme either permanently or temporarily and, where possible, NHS staff reduced their income by reducing the hours that they worked.

It was also anticipated that there would be some impact for pension schemes and employers in terms of providing information and guidance and to update their systems to reflect the changes to pension arrangements. This was also the case.

The new arrangements came into force in 2015/16 under section 23 and schedule 4 of the *Finance (No.2) Act 2015*¹⁹ which amended the *Finance Act 2004*. This will be updated as part of the Finance Bill 2019-21²⁰ to reflect the changes to the thresholds. Exhibit 2 explains some of the key definitions included in the legislation.

¹⁵ HM Treasury, *Policy paper: summer budget 2015*, 8 July 2015 (section 3.10)

¹⁶ Adjusted income is the taxable income plus the gross amount of pension savings – see **Exhibit 2** for the full definition

¹⁷ HM Treasury, *Pensions tax changes to income thresholds for calculating the tapered annual allowance from 6 April 2020*, 11 March 2020

¹⁸ HMRC, *Policy paper: pensions tapered annual allowance*, 8 July 2015

¹⁹ *Finance (No. 2) Act 2015* and *explanatory notes* (paragraphs 389 to 436)

²⁰ Parliament, *Finance Bill 2019-21*, accessed 20 April 2020

Lifetime allowance

The lifetime allowance is a limit on the size of an individual's pension pot before tax is payable. In 2019/20, the lifetime allowance was £1,055,000²¹ and in 2020/21 it is £1,073,100²².

For defined contribution pension schemes, the pension pot is the amount of money that goes towards paying out the pension. The size of the pot will depend on the amount of money paid into the scheme by the individual and their employer, the performance of the fund's investments (up or down) and the way that the individual decides to take their money out of the fund.

For defined contribution schemes, the pension pot is calculated as 20 times the pension in the first year, plus the lump sum.

Where an individual's pension pot exceeds the lifetime allowance then they will be liable to pay tax. The rate of tax is currently 55% if the pension is received as a lump sum, or 25% if it is received any other way. The tax is paid by the NHS pension scheme and taken out of the individual's NHS pension benefits²³.

Exhibit 2: Definitions

There are a number of key definitions that are all explained on the HMRC's website.

Taxable income – this is the income for the year that is subject to taxation. It will include money earned from employment, profits from self-employment, some state benefits, pensions, rental income, taxable benefits from employment, interest on savings. For different types of income, there are allowances which mean earnings up to that amount are not taxed. Some income, such as premium bond wins or interest on individual savings accounts (ISAs) are not taxable.

Net income – this is taxable income for the year less any tax reliefs that apply, such as payments made to your pension scheme that had tax relief but were paid before the relief was given.

Threshold income – this is the net income for the year less the gross amount of pensions savings from all schemes, less the amount of lump sum death benefits received, less any reduction of income from pension provision through salary sacrifice arrangements made after 8 July 2015, less any reduction of employment income for pension provision through any relevant flexible remuneration arrangements made after 8 July 2015.

Adjusted income – this is the net income plus amounts of claims made for tax relief on pension savings, plus pension savings made to pension schemes where tax relief was given, plus relief claimed on pension savings made to overseas pension schemes, plus the amount of pension savings your employer made for you, less any lump sum death benefits received from registered pension schemes.

Pension savings – for defined contribution schemes this is the amount of savings made by the individual or on their behalf during the pension input period. For defined benefit schemes, this is the difference between the opening value and the closing value where:

- the opening value is the annual pension built up so far at the end of the previous pension input period multiplied by 16 plus any separate lump sum built up at the end of the previous pension input period, all increased by the consumer price index²⁴ (CPI) for the previous September
- the closing value is the annual pension built up so far at the end of the pension input period multiplied by 16 plus any separate lump sum built up at the end of the previous pension input period.

²¹ HMRC, *Tax on your private pension contributions – lifetime allowance*, accessed 16 March 2020

²² HMRC, *paragraph 2.186 Budget 2020*, March 2020

²³ NHS Business Services Authority, *Lifetime allowance*, accessed 16 March 2020

²⁴ Office for National Statistics, *Consumer price inflation, UK statistical bulletins*, accessed 21 April 2020

Where the difference is negative, the pension savings are nil for that period. Where the difference is positive, that is the amount of pensions savings for that period.

NHS pension scheme

The NHS pension scheme for:

- England and Wales is administered by the [NHS Business Services Authority](#)
- Scotland is administered by the [Scottish Public Pensions Agency](#)
- Northern Ireland is administered by the [HSC Business Services Organisation](#).

In all cases, the NHS pension scheme is made up of two different schemes:

- 1995/2008 NHS pension scheme which closed with effect from 1 April 2015. There are two sections to this scheme - the 1995 section and the 2008 section
- 2015 NHS pension scheme which was introduced from 1 April 2015.

Membership of the different schemes is based on the date of joining the NHS pension scheme and whether or not the individual had protected rights or transferred between schemes. Exhibit 3 sets out the key differences for individuals between each of the three schemes.

Exhibit 3: NHS pension schemes

NHS pension schemes are open to staff employed by an NHS organisation, a GP surgery, a direction body (usually an organisation now employing staff TUPE'd from an NHS organisation²⁵) or an independent provider. It is also open to GPs, dentists, ophthalmic practitioners or non-GP providers of General Medical Services, Primary Medical Services, Alternative Provider Medical Services contracts or Specialist Primary Medical Services contracts.

	1995 section ²⁶	2008 section	2015 scheme ²⁷
Employee contributions	All member contributions are 5 – 14.5% of pensionable pay depending on the rate of that pay		
Pension	An annual pension worth 1/80 th of the best of the last 3 years' pensionable pay per year of membership An annual pension worth 1.4% of total uprated earnings for practitioners	An annual pension worth 1/60 th of reckonable pay per year of membership An annual pension worth 1.87% of total uprated earnings for practitioners	Each year a pension pot of 1/54 th of the pensionable pay is built up and then revalued using an agreed formula each year. The final pension is the sum of each year's pension pot.
Retirement lump sum	Retirement lump sum of 3x pension	Option to exchange part of pension for cash at retirement up to a limit. Some members have a compulsory amount of lump sum	Option to take a lump sum in exchange for pension. £12 of lump sum is available for every £1 of pension given up.
Normal pension age	Normal retirement age of 60 years	Normal retirement age of 65 years	Normal retirement age is the state pension age or 65 if that is later

²⁵ NHS Business Services Authority, [NHS pension direction factsheet](#), 2014

²⁶ NHS Business Services Authority, [1995/2008 NHS pension scheme – guide for members](#), 2019

²⁷ NHS Business Services Authority, [2015 NHS pension scheme – guide for members](#), 2019

The NHS pension schemes are unfunded, defined benefit schemes. The scheme rules are set out in statutory regulations. The contribution rates (both employer and employee) are set as a result of the scheme valuation and cannot be varied by employers or employees. This means that NHS employees are either in the scheme or not in the scheme.

According to NHS Employers²⁸ and the NHS Business Services Authority (NHSBSA)²⁹, NHS employees are more likely to exceed their annual allowance if:

- they have long service in the NHS pension scheme – the pension savings is calculated using the annual pension built up which is the salary at the end the period multiplied by the number of years' service divided by the scheme multiple – for the NHS schemes either 1/60 or 1/80. As well as annual income tending to increase year on year, the pension savings will go up as additional years are worked
- they have transferred pensions rights from a club scheme³⁰ on or after 28 January 2015
- they have purchased additional pension or added years
- they are members of the 1995/2008 scheme
- they receive a significant increase in pensionable pay
- they are in receipt of a clinical excellence award
- they are promoted several times within a brief period
- they have pension savings in other workplace pension schemes
- they receive taxable income from other sources (for example, income from other employment, pension income, self-employment and income from rental properties)
- inflation is low.

It is the individual's responsibility to complete a self-assessment tax return if they are liable to pay the annual allowance charge³¹. The individual can either pay any tax due themselves or use the 'scheme pays' facility to share responsibility with NHS pensions³².

The NHS pension scheme is a defined benefit scheme, which makes the calculation of the value of benefits complicated. There are many variables that need to be taken into account and some of the information can only be provided by the NHS pension scheme.

The NHS pension scheme will provide an annual allowance statement to those members whose growth in their NHS pension benefit is over the standard annual allowance, currently £40,000³³, on request, on ill-health retirement and to all medical, ophthalmic or dental practitioners. However, the NHS pension scheme will not have all the information necessary to assess whether the tapered allowance has been reached. This is because the pension administrators will not have information on non-pensionable income that an individual has earned or any other pension schemes, they may be members of. Therefore, the advice is that members with higher salaries should seek independent financial advice and should request a pension savings statement from the NHS pension scheme where their calculated adjusted income is between £240,000 and £300,000 (prior to April 2020, this was between £150,000 and £210,000³⁴).

²⁸ NHS Employers, *Annual allowance briefing*, March 2020

²⁹ NHS Business Services Authority, *NHS Pensions – annual allowance does it affect me?*, 2017

³⁰ These are transfers from specific salary related occupational pension schemes some of which are public sector schemes and some of which are not – examples include the Civil Service scheme, the Armed Forces scheme, local authority pension schemes

³¹ HMRC, *Tax on your private pension contributions*, accessed 8 May 2019

³² NHS Business Services Authority, *Scheme pays election guide (2017/18 onwards)*, 2017

³³ NHS Business Services Authority, *NHS pension scheme: annual allowance pensions savings statement guide*, October 2019

³⁴ NHS Business Services Authority, *2016/17 tapered annual allowance (12.2015) v1*, 2015

Impact on individuals and the NHS

Putting it simply, individuals who have threshold income³⁵ of less than £200,000 will have an annual allowance of £40,000. They will have to pay tax (the annual allowance charge) on any amount that their pension saving for the year above that £40,000 limit. Tax will be payable at their marginal tax rate – currently for individuals earning over £200,000 this will be the higher rate of tax.

Where an individual's threshold income is greater than £200,000 and their adjusted income³⁶ is greater than £240,000, the tapered allowance applies. The tapered annual allowance will apply to those whose total income is more than £300,000. The calculation of the amount of their allowance is based on their adjusted income. They will have to pay tax on the amount that their pension saving for the year is above the calculated adjusted allowance.

Where adjusted income is greater than £240,000, the minimum tapered annual allowance is £4,000. For those with total income of more than £312,000, the £4,000 limit will apply.

Since 2018, there has been anecdotal evidence that by working additional hours or being promoted, individuals working in the NHS have been presented with a tax bill for the year that is greater than the additional income that they received. This has been widely reported and reference to some of the articles can be found in the further reading section of this briefing. This may be a particular issue for clinicians working in the NHS as the pay model used means that they are paid additional amounts for carrying out additional hours or duties.

The HFMA has found³⁷ that this issue is of concern to NHS senior finance managers and that staff taking early retirement, reducing their hours, refusing additional hours and new responsibilities is affecting NHS bodies and their patients.

The changes made to the thresholds in the March 2020 Budget were intended to address those concerns.

Examples and further guidance

The guidance issued by the Pensions Advisory Service³⁸ advises employees to ask their scheme administrator if they are likely to be affected. Which? has included an NHS pension scheme specific worked example in its briefing³⁹ on how the pensions annual allowance works.

The various worked examples have yet to be updated to reflect the change in the thresholds. However, the methodology is not changed as a result of the March 2020 Budget:

- the NHS Business Services Authority have also developed a worked example⁴⁰ where a doctor has pensionable pay of £131,343, threshold income of £117,298 and adjusted income of £178,387 which means that the tapered annual allowance applied. The amount of tax payable is £10,471.
- Tilney, an investment and planning group, has produced a comparison⁴¹ of two 58 year-old GPs – one working full time and the other drawing their pension and working half time as a locum. The full time GP's annual income is only £338 more than the part time GP.

³⁵ Threshold income is taxable income adjusted for tax reliefs, pension savings and pension contributions

³⁶ Adjusted income is the taxable income plus the gross amount of pension savings

³⁷ HFMA, *Survey results - the impact of the pension lifetime and annual allowance on the NHS*, July 2019

³⁸ The Pensions Advisory Service, *Pensions and tax: the annual allowance*, accessed 21 April 2020

³⁹ Which?, *How the pensions annual allowance works*, updated April 2020

⁴⁰ NHS Business Services Authority, *NHS Pensions – annual allowance – tapered annual allowance example*, 2018

⁴¹ Tilney, *GP numbers fall as pension complexities add to looming NHS staff crisis*, 8 May 2019

Actions taken to reduce the impact

As the NHS pension scheme is an unfunded defined benefit scheme, employee and employer contributions are determined centrally and are based on an actuarial review. There is no flexibility for members of the scheme to vary their contributions.

Individuals who are required to pay tax above the annual allowance in any year can:

- use any annual allowance that they have not used in the previous three years to reduce the amount of tax payable in the year
- enter into a 'scheme pays' arrangement where the tax will be paid to HMRC by the NHS pension scheme on the individual's behalf – this is recorded as a separate account on the individual's pension record. On retirement the total amount in this account, including interest, will be deducted from the NHS pension benefits when they are paid
- pay the tax due.

In the longer term, actions that NHS staff can take include:

- reducing their working hours
- taking early retirement
- refusing pay rises/ promotions
- leaving the NHS pension scheme (the annual allowance applies to all pension schemes so joining another pension scheme may not resolve the issue).

According to NHS Employers⁴², the amendments made to the tapered annual allowance thresholds in March 2020 should mean that 98% of consultants and 96% of GPs will be unaffected by the annual allowance tapering based on their NHS income.

Impact of interim actions taken by NHS bodies prior to March 2020

Local arrangements

In 2019, the BMA published guidance outlining a possible alternative pension contribution in the form of a separate cash payment. This suggested that NHS bodies could pay the amount of the contribution to the NHS pension scheme direct to the employee as a cash payment. There are implications of this in relation to ill health and death benefits, holiday pay and redundancy payment calculations. The employee would also have to opt out of the automatic enrolment arrangements.

NHS Employers published guidance⁴³ in September 2019 that included guidance on implementing this option as well as other arrangements NHS bodies could put in place locally. These include:

- determining that some elements of pay are non-pensionable
- reviewing and amending local clinical excellence awards
- designing TOIL arrangements so staff can take time off in lieu of additional hours rather than being paid for them
- full time employees being given two part time contracts with pensionable/ non-pensionable pay being distributed across both to avoid pension growth
- establishing third party organisations for service delivery
- opting out of the pension scheme for part of the year ('the hokey cokey')
- paying additional employer contributions as salary (the BMA's proposal)

Where any of these options have been taken up, it is important for NHS bodies to assess the financial implications and ensure that they are accounted for appropriately. For most of these arrangements, the impact will be accounted for in the period in which the work is undertaken so there is unlikely to be a long-term liability.

⁴² NHS Employers, *Budget 2020 – summary for employers*, March 2020

⁴³ NHS Employers, *NHS pensions tax guidance*, September 2019

Any local arrangements will need to be reviewed as a result of the announcements made in the March 2020 Budget.

2019/20 offer

In November 2019, NHS England and NHS Improvement announced⁴⁴ that NHS employers will make a contractually binding commitment to pay the amount of tax over the annual allowance that clinicians would incur in 2019/20 as long as those individuals:

- are members of the NHS pension scheme and
- are employed or engaged in a role that requires registration with an appropriate healthcare regulatory body for 2019/20 and
- will have a tax charge in respect of the growth of their NHS pension benefits above their pension savings annual allowance threshold as a result of work done in 2019/20 and
- return a 'scheme pays' form⁴⁵ before 31 July 2021.

The intention was that this promise would mean that eligible clinicians could take on additional shifts in 2019/20 without being worried about the tax implications. The cost of this commitment to trusts and CCGs will be covered centrally.

Employing bodies were asked to take the following actions as a result of this announcement:

- communicate the offer to all eligible clinicians
- confirm the eligibility of clinicians
- sign of a local equality impact assessment (EIA).

The deadline for clinicians to return the scheme pays forms is 31 July 2021⁴⁶ so employer organisations will need to identify and keep track of all of those who return the forms. This list will need to be kept under review and updated as changes can be made to the form up to 31 July 2024. Also, the employing organisation that the individual works for in 2019/20 will retain the liability even when that individual moves jobs so the list will need to keep track of staff until they retire.

NHS bodies will need to establish a provision representing their liability to pay the tax the clinician would have paid in 2019/20. Because this arrangement is being funded through scheme pays, this liability will only be discharged once the clinician takes their pension. The NHS bodies' provisions will be matched by an equal and opposite receivable with NHS England reflecting the fact that the liability will be funded centrally. There will be no impact on the surplus/ deficit of the NHS body.

In 2019/20, the arrangements for establishing the provision are set out in a letter from NHSE&I⁴⁷. In this first year, the provision will be based on the estimated number of staff the NHS body expects to sign the scheme pays form. The provision will be reviewed and revised in 2020/21 and subsequent years based on the actual numbers of clinicians meeting the criteria for reimbursement and whether or not they have retired.

⁴⁴ NHSE&I, *Pensions tax annual allowance*, updated 11 March 2020

⁴⁵ NHS BSA, *Annual allowance*, accessed 20 April 2020 – this document sets out the normal arrangements for scheme pays

⁴⁶ If the employee retires or reaches the age of 75 before this date, the deadline is the earlier date - the date of retirement or the 75th birthday

⁴⁷ NHSE&I, *2019/20 Pension tax: trust accounting provision for 2019/20*, 11 April 2020

Further information

Guidance

NHS BSA, [Tax information for employers](#)

NHS BSA, [Tax information for members](#)

SPPA, [Your pensions annual allowance](#)

HSC BSO, [Tax information](#)

HMRC, [Tax on your private pension contributions](#)

The Pensions Advisory Service, [The annual allowance](#)

The British Medical Association (BMA), [NHS pension annual allowance](#)

Articles

Financial Times, [The future for the pensions taper](#), 9 August 2019

BBC, [NHS pensions row: ministers act amid waiting list rise](#), 7 August 2019

The Guardian, [‘Tax trap’ pensions rules to change in effort to halt NHS crisis](#), 7 August 2019

House of Commons, [Oral answers to questions \(HM Treasury\)](#), 21 May 2019

FT Adviser, [Hammond dismisses £6bn pension tax reform](#), 21 May 2019

House of Lords, [Shortage of GPs and Nurses – private notice question](#) (column 1224), 8 May 2019

Twitter – Dr Tony Goldstone, [Sky News interview on NHS pensions crisis](#), 8 May 2019

Twitter - Josephine Cumbo, [Number of members of the NHS pension scheme over the annual allowance](#), 7 May 2019

The Sunday Times, [Patients feel pain as doctors cut clinics over tax](#), 5 May 2019

Twitter – Oliver Pratt, [Stopped doing additional work and reduced contracted hours](#), 30 April 2019

British Medical Association (BMA), [BMA warns of effect of pensions storm on NHS workforce](#), 25 April 2019

Telegraph, [Pension tax row risks 'absolute crisis' with one in 10 NHS doctors quitting](#), 9 April 2019

The Times, [Doctors pay to work after change in pension tax rule](#), 8 April 2019

Westminster Hall, [NHS pension scheme: tapered annual allowance](#), 2 April 2019

Financial Times, [Cuts to UK pension tax breaks drive NHS doctors to retire early](#), 2 April 2019

Financial Times, [Diagnosing the NHS pensions problem](#), 29 March 2019