Paying annual allowance **tax charges**

Your guide to **Scheme Pays**

isio.



Understanding how your scheme can pay annual allowance tax charges

This guide explains what Scheme Pays is and how you can use it to pay a tax charge, including:

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Isio, Reading

How Scheme Pays works

When you save into a workplace pension, you usually get tax relief. This means some of the money that would have gone to the government in tax goes into your pension instead.

There are limits on how much you can save before a tax charge is applied.

If you get a tax charge, you can ask your scheme to pay it on your behalf. In return, your scheme administrator will reduce your future pension benefits because you've used part of them to settle the tax charge. This is called Scheme Pays.



Keep track of your pension savings

It's important to keep an eye on how much you pay into your pension and whether you could go over any of the limits.

Noor Khan | Manchester team



Pension limits that can trigger the tax charge

You may need to pay a tax charge if you go over:

- the annual allowance (AA) – currently **£60,000**. For most people, this is the main limit to watch.
- the money purchase annual allowance (MPAA) – currently **£10,000**
- the tapered annual allowance (TAA) – currently between **£10,000** and **£60,000** depending on your income
- the alternative annual allowance (AAA) – currently between **£0** and **£50,000** depending on your income. This limit only applies to defined benefit pension schemes where the MPAA has been triggered and exceeded.



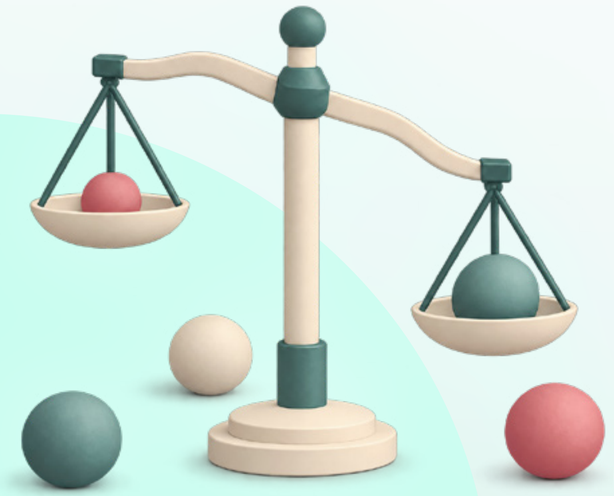
You can find more information on pension tax limits in the dedicated **guide to pension tax rules and allowances**.

How to check if you've gone over a limit

If you go over the annual allowance (AA)

If your pension savings in schemes administered by Isio go over the AA, we'll send you a pension savings statement around six months after the end of the tax year.

This statement will tell you how much of your allowance you've used and what your options are.



If you go over the TAA or the MPAA

If you go over the TAA or the MPAA, you are responsible for checking whether you have an AA tax charge to pay and taking any action needed.

To do this, you would need to review your pension savings across all of your pension arrangements and work out whether you have exceeded your available allowance.

If you are unsure, you should consider seeking help from a financial adviser, tax adviser or accountant, as they can help you understand your position and any tax charge that may apply.

You can find more information on this on the government's website at **gov.uk/guidance/work-out-your-allowances-if-youve-flexibly-accessed-your-pension** and on the MoneyHelper website at **moneyhelper.org.uk/en/pensions-and-retirement/tax-and-pensions/tapered-annual-allowance**.

Who can use Scheme Pays

There are two types of Scheme Pays – mandatory and voluntary. Which one applies to you depends on your situation.

Mandatory Scheme Pays

With mandatory Scheme Pays, you and your scheme jointly share responsibility for paying the tax charge.

It's called 'mandatory' because:

- if you meet the conditions, your scheme must pay the charge once you submit the form, and
- you can't change or withdraw your request

You can use mandatory Scheme Pays if:

- your pension savings for the tax year go over the AA of **£60,000**, and
- the resulting AA tax charge is **£2,000** or more

You can't usually use mandatory Scheme Pays if you've only gone over the MPAA or the TAA. In those cases, you may be able to use voluntary Scheme Pays if your scheme rules allow it (see page 7).



How much can your scheme pay?

If you're eligible, you can ask your scheme to pay some or all of the charge. If the scheme pays any of the charge on your behalf, your benefits will usually be reduced to reflect the amount paid. Some members choose to pay part of the charge themselves to limit the impact on their benefits, while others may be able to pay some, but not all, of the charge.

For example:

If your tax charge is **£10,000**, you could ask the scheme to pay **£2,000** and pay the remaining **£8,000** yourself.



Deadlines for mandatory Scheme Pays

You are responsible for declaring any AA tax charge on your self assessment tax return. Any tax due must be paid by 31 January following the end of the relevant tax year, unless you choose to use mandatory Scheme Pays.

If you want to use mandatory Scheme Pays, you must tell us by 31 July following the self assessment deadline for the tax year to which the charge relates. The scheme will then have until 14 February the following year to pay the tax charge.

For example:

If you get a tax charge for the 2025/26 tax year	
Deadline for declaring the tax charge on your self assessment tax return	31 January2027
Deadline for telling your scheme that you want to use mandatory Scheme Pays	31 July 2027
Deadline for your scheme to pay the tax charge	14 February 2028



Voluntary Scheme Pays

If you don't meet the criteria for mandatory Scheme Pays, you can either:

- pay the charge yourself, or
- ask to use voluntary Scheme Pays (if your scheme rules and the Trustee allow it)

You can use voluntary Scheme Pays for charges relating to the annual allowance (AA), money purchase annual allowance (MPAA), tapered annual allowance (TAA), or alternative annual allowance (AAA) (see page 11).

Important – different deadlines apply

Unlike mandatory Scheme Pays, you must report the charge and pay any tax due through your self assessment tax return by 31 January following the end of the relevant tax year.

If you want to use voluntary Scheme Pays, we will normally need to pay the charge before 31 January to help avoid interest or other charges. Any additional charges arising due to a late request or late payment are your responsibility.

Don't leave it too late!



We need time to review your request and we may need to contact you for more information. So, please let us know if you want to use voluntary Scheme Pays by 1 November.

If we receive your request after this date and the tax charge is not paid on time, you will be responsible for any additional charges.

For example:

If you get a tax charge for the 2025/26 tax year	
Deadline for telling your scheme that you want to use voluntary Scheme Pays	1 November 2026
Deadline for declaring the tax charge on your self assessment tax return	31 January 2027
Deadline for your scheme to pay the tax charge	31 January 2027

How your scheme pays the tax charge

Your scheme will pay the tax charge through HMRC's accounting for tax (AFT) return.

It's your responsibility to:

- complete your self assessment tax return accurately and on time, and
- tell us that you want to use Scheme Pays within the required timescales

If you miss a deadline, HMRC may add interest or penalties.



Any additional charges are your responsibility and cannot be paid by the scheme.



How carry forward works

If you exceed the AA, you may not always have to pay a tax charge.

This is because you can carry forward any AA you haven't used from the previous three tax years and add it to your allowance for the current tax year.

This can increase the amount you can save into your pension without paying a tax charge. It may be helpful if you want to make a larger pension contribution in one year.

Your pension savings statement shows information for the three previous tax years to help you check this.

For example:

Sam went over the AA for the 2025/26 tax year by **£10,662**. However, **Sam** had unused AA available to carry forward from the previous three tax years:

- 2024/25: **£4,732**
- 2023/24: **£3,378**
- 2022/23: **£9,099**

This gave a total carry forward amount of **£17,209**.

As the carry forward amount is higher than Sam's excess for the 2025/26 tax year, there would be no AA tax charge.



How to calculate your tax charge

To calculate your tax charge, you need to know:

- how much you've paid into each pension scheme during the tax year (this is known as your pension input amount)
- how much you've gone over the limit by, and
- the highest rate of income tax you pay (this is known as your marginal tax rate)

To calculate your tax charge, multiply the excess amount by your highest rate of income tax.

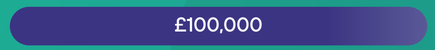


Important

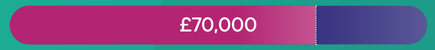
If your tax return is incorrect, HMRC may charge interest or penalties. If you need help calculating your tax charge, you may need to speak to a financial adviser.

For example:

Sam earns **£100,000** a year.



He has pension savings of **£70,000**.



The AA is **£60,000**.



This means **Sam** has gone over the allowance by **£10,000**.



This excess is taxed at **Sam's** highest rate of income tax, which is **40%**.



x 40%

As a result, **Sam** has an AA tax charge of **£10,000 × 40% = £4,000**.

= £4,000



How to report the charge to HMRC

If you go over the AA, you must report this to HMRC using your self assessment tax return.

You'll need to complete the 'additional information' section and include details in the 'pension savings tax charges' section.



Even if you use Scheme Pays, the charge is still a personal tax charge and must be reported on your tax return.

Vito Faircloth | London team

How to use Scheme Pays

If you'd like to use Scheme Pays, you'll need to complete and return a form. To request a form, please get in touch with us.

Please make sure you understand this guide before submitting your decision.

Send your form to:

Isio
PO Box 108
BLYTH
NE24 9DY



Email us at adminhelp@isio.com if have any questions or need any help completing your form.

Once you ask us to pay a tax charge through Scheme Pays, you can't withdraw your request.

Where to go for help and support

Getting in touch with us

You can find more information about your pension on your member website and by logging into your secure online account if you have one.

If you can't find what you're looking for, or if you have any questions or concerns, please get in touch – we're here to help.

Call: 0800 122 3200

Please have your membership reference number to hand when you call. You can find this in your online account and on any correspondence from Isio about your pension.

Email: adminhelp@isio.com
We aim to reply within 10 working days.

Send us a message: Visit yourisio.com/forms/member-enquiry, complete the form and select Submit. Once we've resolved your query, we'll get back to you.



Getting advice

If you're unsure if you've gone over any of the allowances or how to calculate your tax charge, you may want to get independent financial advice.

Financial advisers offer professional advice on financial decisions, and you will have to pay for their services.

If you're looking for financial advice, be wary of scams and fraudsters.

You can use the Financial Conduct Authority (FCA) Financial Services Register to search for authorised advice providers.

You should also check that the adviser you choose has permission to advise on pensions tax issues. This helps ensure that the advice you receive is regulated and that you have access to complaints and compensation schemes if something goes wrong.



Isio advice service

Isio has its own service through which it can give members access to financial advice. Our service is regulated by the FCA and covers all areas of pension and financial planning needs.

Visit: isio.com/what-we-do/wealth/wealth-management

Unbiased

You can also visit unbiased.co.uk to find Independent Financial Advisers (IFAs) in your area.

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