

Restoration

Frequently-Asked Questions

(3)

Eligible members will be sent a letter setting out full details of their restoration payment in June 2022.

Most eligible members do not need to take any action and payments will be made automatically into bank accounts in October 2022.

But for some members there are additional considerations which they need to take into account, and they must check if they need to take any action before the payment is automatically made. The June letter contains the relevant details and where to find out more.

Section 3: The restoration payment and income tax

For answers to some of the other questions you may have, see the Restoration section of the website: www.bspensions.com > Library > Restoration

Over the coming weeks we will be adding to this list so do check back regularly to see if there have been updates.

1. How will the lump sum be taxed?

For most members, 25% (a quarter) of the lump-sum payment will be tax-free and the rest taxed as income.

If the amount of the Lifetime Allowance you have remaining is less than the amount of your lump-sum payment, there are some additional tax implications. If you think this may be the case or are not sure, please read the “Restoration: lump-sum or pension increase?” leaflet – available on our website at www.bspspensions.com > Library > Restoration – for more information and what to do next.

2. When will the lump sum be taxed?

The Pensions Office would normally deduct income tax from a payment before you receive it. However, HM Revenue & Customs’ (HMRC) rules require lump-sum payments of this kind to be taxed on an ‘emergency tax code’ basis. Having emergency tax applied means that, when calculating the tax payable before making the payment, your other income for the current tax year, including your Scheme pension, isn’t taken into account. And as a result, it is very likely that this will mean that you pay too little, or even no, income tax on the lump-sum payment before it is paid into your account. In these circumstances, after the payment has been made, you can expect HMRC to take steps to recover the income tax that you are due to pay.

We have asked HMRC to allow us to tax restoration payments on the same basis as your regular monthly pension payments, which we believe would mean, in most cases, that the income tax deducted from the lump-sum payment would likely be more accurate as it takes into account your other income. If HMRC allows us to take this approach to taxing restoration payments, we will update this FAQ.

After the payment is made, you will automatically receive written confirmation of the net amount you received, the tax deducted and details of the tax code used. We will explain what, if any, action in respect of your tax position you may want to consider with HMRC.

3. I am due to receive a pension increase - rather than a one-off lump sum – how will it be taxed?

The pension increase will be taxed as income in the same way as your regular pension.

It may be possible, depending on how much it is, that you may move to a higher income tax bracket.

4. I have a query about my tax code. Can you help?

Any queries relating to tax codes should be referred to HM Revenue & Customs. Their details are:

HMRC Revenue and Customs
Centre 1
East Kilbride
Glasgow
G79 1AA
Phone 0300 200 3300

You should tell HMRC your National Insurance number and the Scheme Reference number which is 961/084181X.