

Lifetime Allowance Quick Guide



CARE about your future

Are you facing a tax bill?

From 6 April 2016, there will be significant changes to the allowances for tax efficient pension savings, which could result in you paying an additional tax on your scheme benefits when you retire.

In the past, these allowances have only affected senior officials and those on a progressive career path with frequent promotions. However, we now expect more members to be restricted by these allowances, particularly those with longer periods of service or members who are now earning benefits at double the standard rate (some police officers, firefighters and mental health officers).

In this factsheet, we explain what these changes are, how you might be affected and what you need to do. It's important that you read and understand the impact this may have on you and your retirement, particularly if at least one of these applies to you:

- you earn more than £100,000 a year
- you have a long period of service
- you're earning benefits at double the standard rate
- you have recently been promoted
- you have been awarded a pay rise.

Why is this so important?

Scheme membership offers you a tax-efficient way to save for your retirement. You receive tax relief on your contributions and you can take a tax-free lump sum when you retire. HMRC sets limits on how much you can benefit from these efficiencies and does this by giving you two allowances:

1. **Your lifetime allowance**
2. **Your annual allowance**

If you exceed these allowances, your benefits may be subject to a tax charge.

Changes to these allowances mean that even if you're not close to the current limits now, you may need to consider your overall position in light of these reductions.

In this guide we focus on changes to the lifetime allowance. Our Annual Allowance Quick Guide covers changes to the annual allowance in more detail.

The changes are complex and our guides can only give you an overview. The key thing to remember is that you are urged to seek financial advice as soon as possible if you think you may be affected by the changes we describe.

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What do we mean?

Opposite are some high level explanations of some of the terms we use in this leaflet.

Adjusted income – your gross taxable income plus your pension input growth, less your pension contributions.

Annual allowance – the value of pension savings you can make each year without incurring a tax liability.

Lifetime allowance – the amount of pension saving you can build during your working life without incurring a tax charge.

Pension input growth – this includes:

- any increase in the notional value of your scheme benefits;
- any added years AVCs you pay; and
- any other pension savings you make.

Threshold income – There are various types of chargeable income which can be found at ;

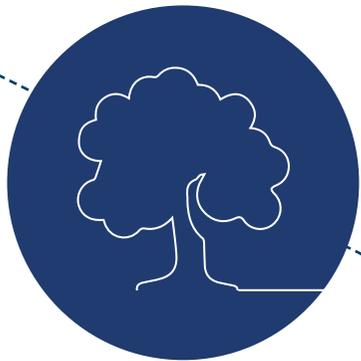
www.gov.uk

Unprotected member – someone who has joined the 2015 scheme and is no longer earning benefits in the pre 2015 arrangement.

What are the changes and how might they affect you?

Two key changes came into effect from 6 April 2016:

1. The lifetime allowance reduced from £1.25 million to £1 million. We expect the lifetime allowance to stay at this level until 2018 and then begin to rise in line with increases to the Consumer Prices Index (CPI).
2. For the first time, the annual allowance will depend on your income and will reduce from £40,000 a year if your 'adjusted income' is more than £150,000 a year. Your annual allowance will not reduce if you have a threshold income of £110,000 or less (it will remain at £40,000).



Pension input growth

You will need to give your financial adviser or accountant a Pension Savings Statement we will provide a statement on request but will send one to you automatically if:

- your pensionable pay is £110,000 a year or more in the tax year 2016/2017 (to help you determine your adjusted income); or
- you breach the £40,000 annual allowance (see our 'Annual Allowance Quick Guide')

Remember, this will only cover your membership in a Scottish public service pension scheme (including any benefits you have transferred in from another arrangement).

You need to ask for the same information from the administrators of any other scheme you have benefits in, including any cross border schemes that you have not transferred across.

Lifetime allowance

Few members were affected by the introduction of Lifetime Allowance from April 2006 as most pension savings were well within the limits set. However, the lifetime allowance has been reducing since 2010 and was further reduced to £1 million on 6 April 2016.

Exceeding the lifetime allowance triggers a tax charge but HMRC does offer protections from this charge.

How do you know if you are close to the lifetime allowance?

For public service pension schemes your lifetime allowance is 20 times your pension paid in the first year of your retirement plus your lump sum. You will need to take into account any benefits you hold or have taken in other pension schemes.

Do you have protection?

If you have already successfully applied for primary or enhanced protection, fixed protection 2012, fixed protection 2014, or individual protection 2014 you automatically keep this when the lifetime allowance reduces and so you do not need to take any action.

You can find out more about these protections www.gov.uk

If you have not applied for protection in the past

If you have not previously applied for protection, but think you may now be a risk of exceeding the lifetime allowance, you may need to take action now.

From April 2016 there two new protection regimes were made available:

1. **Individual Protection 2016 (IP2016); and**
2. **Fixed Protection 2016 (FP2016).**

You should consult with your financial adviser or accountant as soon as possible to determine which, if any, of these protections you should apply for.

While there is no specific deadline for applying for these protections, you should apply before you take your benefits as you will need to provide your HMRC protection reference number if you want to rely on either of the two new protections.

How to apply

Individual and Fixed Protection Certificates

Obtaining a Permanent Protection Notification Number

From 28 July 2016 everybody who requires a protection certificate in respect of:

- Fixed Protection 2016 (FP2016)
- Individual Protection 2016 (IP2016) or
- Individual Protection 2014 (IP2014)

should apply to HMRC be made to HMRC using their 'online' application process.

Applications for a permanent protection notification number are made by using a personal account on the 'Government Gateway' portal. Successful applicants will be able to immediately print off details of their protection status. This will be required by SPPA, before benefits can be put in to payment.

For more information and to make an application for FP2016, IP2016 or IP2014 please visit:

<https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance>

What happens if you don't apply for protection?

If you fail to apply for protection and your final benefits (from all pension sources) exceed the lifetime allowance, you will still be able to take 25% tax free but the excess will be taxed as follows:

- 55% if you take the benefits over and above the tax free lump sum allowance.
- 25% if you take the excess as pension.

For further information visit; www.sppa.gov.uk





Your 10 second summary

The allowances for making tax-efficient pension savings is reducing.

We expect more members to be restricted by these allowances than may have been in the past.

You may need to take action before the end of the financial year to avoid a tax charge.

You are urged to speak to your financial adviser or accountant as soon as possible if you think these changes affect you.

Are there any further changes expected?

Yes, there could be. The chancellor launched a review of how pensions tax relief is granted – entitled “Strengthening the incentive to save” together with a consultation exercise to gather industry feedback. It is too early to say what the outcome of this review will be, but it is possible it could lead to fundamental changes to the way the UK Government provides tax breaks to pension savers.

Want to know more?

More details are available in the taxation area of our main website www.sppa.gov.uk or you can go to the UK government’s website at www.gov.uk.

The information in this document is based on our understanding of the tax and legal position and does not allow for any changes that may be communicated after the date of publication. For more information on how your particular circumstances may be affected, please contact us. This document is for reference purposes only and does not constitute financial advice. It is the member’s responsibility to ensure that they pay any tax due to their pension savings.

We recommend that you take independent financial advice from a registered individual, who can assess and quantify the extent of any tax liability that is due. You can find a list of independent financial advisers at www.unbiased.co.uk

