

Protected Tax Free Cash - an update

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Last year I wrote about a change in protected tax free cash, and following the freezing of the LTA I think it will be helpful to provide an update.

Protected tax free cash is the tax free cash which could have been taken on 5 April 2006 from an 'occupational' pension scheme, increased in line with increases in the LTA. This amount is automatically protected without the need to apply for protection.

Complications arose when members paid post A Day contributions into a pre A Day plan, as HMRC wanted to ensure that they got protected cash from the pre A Day fund, and an additional 25% cash from the post A Day fund.

Following FA2008 it is now possible to have a post A Day fund even if you never contribute to pensions post A Day! This is because the pre A Day fund is defined as the fund at A Day increased in line with increases in the LTA, and any balance is treated as post A Day. What this means is that someone with protected tax free cash exceeding 25% of the fund at A Day will always be able to get more than 25% of their fund at retirement. The following example shows how this might work:

Fund on 5/04/06 = £100,000. Protected tax free cash (ptfc) = £40,000 PTFC = 40%
Total tfc = 40%

On 5/04/08 fund = £120,000. Ptfc = £44,000 Pre A Day fund £110,000. Therefore post A Day fund £10,000. Therefore post A Day cash £2,500. Total cash £46,500
Total %age tfc 42.27%

On 5/04/09 fund = £95,000. Ptfc = £46,666 Pre A Day fund £116,666. Therefore post A Day fund nil. Therefore post A Day cash £nil. Total cash £46,666 Total %age tfc 49.12%

On 5/04/10 est fund = £120,000. Ptfc = £48,000 Pre A Day fund £120,000. Therefore post A Day fund nil. Therefore post A Day cash £nil. Total cash £48,000 Total %age tfc 40.00%

On 5/04/15 est fund = £200,000. Ptfc = £48,000 Pre A Day fund £120,000. Therefore post A Day fund £80,000. Therefore post A Day cash £20,000. Total cash £68,000
Total %age tfc 34.00%

Or on 5/04/15 est fund = £300,000. Ptfc = £48,000 Pre A Day fund £120,000. Therefore post A Day fund £180,000. Therefore post A Day cash £45,000. Total cash £93,000
Total %age tfc 31.00%

If the LTA is never increased again the dates become irrelevant, but even with significant fund growth the protected tax free cash makes transferring questionable.

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