



Protecting Your Pension against a Lifetime Allowance (LTA) Charge

The following technical note provides information about the pension lifetime allowance and the protections currently available. The note explains who should apply for which protection and how an application should be made.

The note is split into two key sections:

1. [Overview of Lifetime Allowance](#), and
2. [Applying for Lifetime Allowance Protection](#)

1. Overview of Lifetime Allowance

There is no limit placed on the amount people can build up under a pension scheme. But, everyone has a set level of 'fund' they can draw from all their pension schemes in their lifetime in a tax-efficient manner – this is the lifetime allowance.

The standard lifetime allowance was reduced to £1.25m on 6 April 2014 and £1m on 6 April 2016.

When are pensions tested against the lifetime allowance?

Benefit crystallisation events (BCEs) are the circumstances where there is a test against the lifetime allowance. These are when any pension benefits are taken; for example a lump sum, drawing an income, death before age 75, or transferring to a qualifying registered overseas pension scheme (QROPS).

There are also BCEs for when someone reaches age 75, as all registered pension are treated as being fully crystallised at age 75, even if no benefits have been taken.

How are pensions measured against the lifetime allowance?

Every time a pension scheme member draws – or crystallises - benefits from a pension scheme, the value of these benefits are measured, and expressed as a percentage of the lifetime allowance for that tax year. That percentage is added to the percentage values calculated on previous crystallisation occasions from the same or different pension schemes, and then the total is measured against the member's available lifetime allowance. If the total of these percentages is 100% or less then there are no implications. But if the member draws more than that amount then there is a tax charge on the excess (or 'chargeable amount').

Calculating the lifetime allowance used

For personal pensions and other money purchase schemes the measurement is simply the fund value. For example, if a member uses £100,000 to buy an annuity in 20016/17 then they will have used 10% of their lifetime allowance.

For defined benefit or final salary schemes the scheme pension is converted to a notional capital value by multiplying it by a factor of 20, and then added to the value of any tax-free cash taken. For example, if a member in 2016/17 took a pension of £7,500 a year and a tax-free cash sum of £100,000, then they would have used up 25% of their lifetime allowance $[(20 \times £7,500) + £100,000] / £1,000,000$.

Paying the lifetime allowance tax charge

The 'lifetime allowance tax charge' is set as:

- 25% of any income taken; or
- 55% of any lump sum taken

Under occupational schemes the scheme administrator decides how the benefit will be paid and taxes the payment accordingly. However, a personal pension member can decide themselves to take benefits either as a lump sum or as an income.

2. Applying for Lifetime Allowance Protection

HMRC have issued a [Newsletter](#): which includes guidance and links to the new online process for applying for protection from an LTA charge.

There are three protections you can currently apply for:

Protection	What it does	Can I keep paying into my pension(s)?
A: <u>Individual Protection 2016</u>	Protects your pension lifetime allowance to the lower of £1.25m or the value of your pension(s) on 5 April 2016.	Yes. However, you will pay a lifetime allowance charge on any money crystallised from your pension that exceeds your protected lifetime allowance.
B: <u>Fixed Protection 2016</u>	Fixes your lifetime allowance at £1.25m.	No except in very limited circumstances. If you do, you will lose your fixed protection and pay any lifetime allowance charge above the standard lifetime allowance that prevails at that time (currently £1m).
C: <u>Individual Protection 2014</u>	Protects your pension lifetime allowance to the lower of £1.5m or the value of your pension(s) on 5 April 2014.	Yes. However, you will pay a lifetime allowance charge on any money crystallised from your pension that exceeds your protected lifetime allowance.

How to Apply for Protection:

Applications must be made online by the individual requesting the protection.

Before you start you'll need to create an account for HMRC online services - you can set one up when you start your application. This is relatively easy, but it does involve usernames, user id and passwords. In addition you will get a new access code by text to your phone every time you sign in.

Your username will be an email address (e.g. johnsmith@myemail.com). You then create a password. The next stage is to sign in using the username and password, which will generate a user ID - these are typically 12 figures long.

Then you have to choose a way for HMRC to ID you. This can be done as shown below.

Choose a way for us to identify you

We'll ask you some security questions that relate to your:

Payslips

UK Passport

P60

I don't have any of these

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Having got into the system you can click the link for:

- A. [Individual Protection 2016](#)
- B. [Fixed Protection 2016](#) or
- C. [Individual Protection 2014](#).

A: Individual Protection 2016

You can apply if your pension(s) were worth more than £1 million at 5 April 2016.

You can still apply if you already have:

- enhanced protection
- fixed protection
- fixed protection 2014
- fixed protection 2016

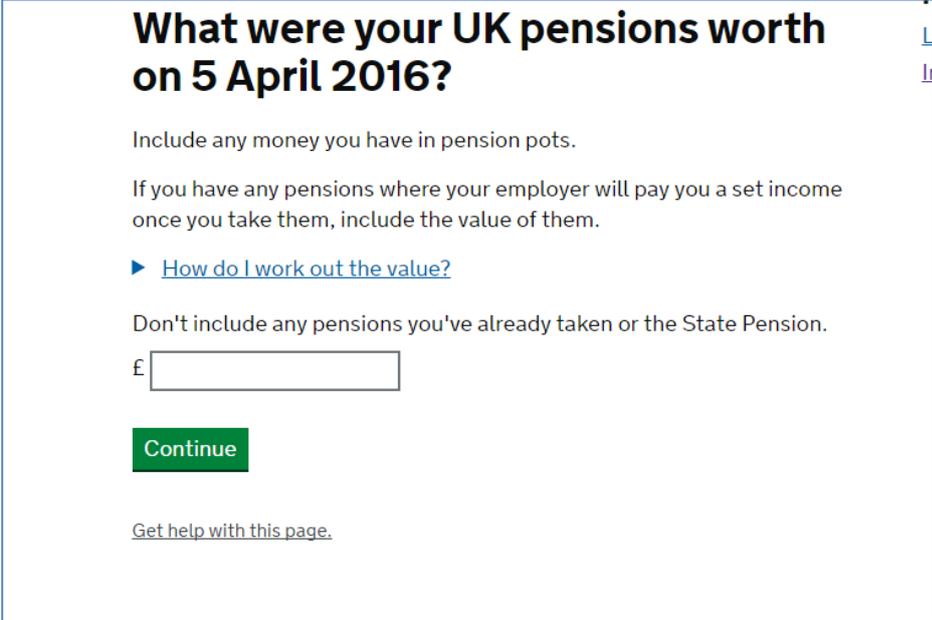
Individual protection 2016 will stay dormant until you lose or give up your previous protection – you need to [tell HMRC in writing](#) if this happens.

If you applied for protection from the 2016 reduction and received a temporary reference number, you must apply online for a permanent reference number.

You can't apply if you have either:

- primary protection
- individual protection 2014

When applying for individual protection, the following question could create some confusion:



What were your UK pensions worth on 5 April 2016?

Include any money you have in pension pots.

If you have any pensions where your employer will pay you a set income once you take them, include the value of them.

▶ [How do I work out the value?](#)

Don't include any pensions you've already taken or the State Pension.

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The 'How do I work out the value' link provides the following information:

To apply for individual protection from the 2014 and 2016 reduction in lifetime allowance you need to give HM Revenue and Customs the:

- income you've taken from pensions before 6 April 2006
- lifetime allowance you used between 6 April 2006 and the relevant date
- value of pensions you haven't taken yet
- money (which gained UK tax relief) you put into an overseas pension between 6 April 2006 and the relevant date

If your pension scheme administrator can't provide this information, you'll need to calculate the figures, except for any plan(s) we manage on your behalf. You should let us know as and when you require the information and we will provide this to you.

To apply for individual protection 2016, please [click here](#).

B: Fixed Protection 2016

There is no minimum pension value required to apply for fixed protection. The protection will be useful for people who stopped contributions by April 2016 and have built funds that will likely grow to in excess of £1m (or the prevailing lifetime allowance) over the course of their lifetime.

Apply if:

- you or your employer haven't added to your pension since 5 April 2016
- you opted out of any workplace schemes by 5 April 2016

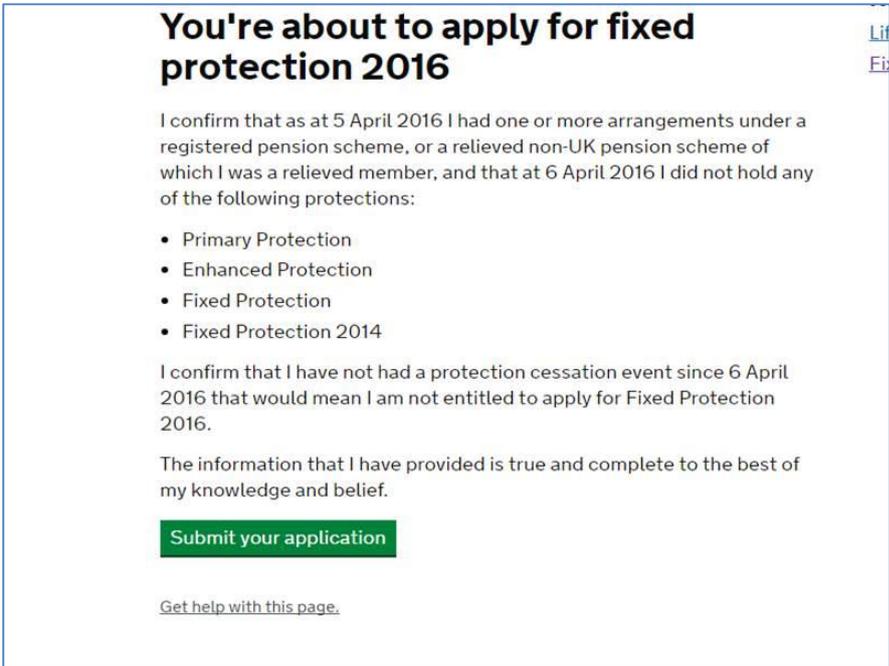
You can still apply if you already have:

- individual protection 2014 (fixed protection 2016 will be dormant until you lose your previous protection – you need to [tell HMRC in writing if this happens](#).)

You can't apply if you have:

- enhanced protection
- primary protection
- fixed protection
- fixed protection 2014

When applying for fixed protection 2016, you will be asked to confirm the following:



You're about to apply for fixed protection 2016

I confirm that as at 5 April 2016 I had one or more arrangements under a registered pension scheme, or a relieved non-UK pension scheme of which I was a relieved member, and that at 6 April 2016 I did not hold any of the following protections:

- Primary Protection
- Enhanced Protection
- Fixed Protection
- Fixed Protection 2014

I confirm that I have not had a protection cessation event since 6 April 2016 that would mean I am not entitled to apply for Fixed Protection 2016.

The information that I have provided is true and complete to the best of my knowledge and belief.

[Submit your application](#)

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From a client's point of view there are no questions to answer, although the term "protection cessation event" is likely to be unfamiliar. Such events include: starting a new pension arrangement under a registered pension scheme; making further contributions or accruals to any benefits; or any unpermitted transfer to or from the scheme.

In practise their only concern should be knowing if they meet these two conditions:

- you or your employer haven't added to your pension since 5 April 2016
- you opted out of any workplace schemes by 5 April 2016

It's likely HMRC will be expecting taxpayers to take these questions at face value, a concern could be people who were auto-enrolled but opted out and all contributions were returned. If your employer's staging date was June 2016 you could not opt out by 5 April, similarly you might think that you and your employer added to your pension since April, even if you got your contributions back. However for the purposes of Fixed Protection 2016 anyone who was in that position is treated as never going into the scheme and making contributions.

If you applied for protection from the 2016 reduction and received a temporary reference number, you must apply online for a permanent reference number.

To apply for fixed protection 2016, please [click here](#).

C: Individual Protection 2014

You can apply if your pension(s) were worth more than £1.25 million at 5 April 2014. You must apply before 5 April 2017.

You can still apply if you already have:

- enhanced protection
- fixed protection
- fixed protection 2014
- fixed protection 2016

If you have fixed protection 2016, it will become dormant and individual protection 2014 will be opened. For all other protections, individual protection 2014 will stay dormant until you lose or give up your previous protection – you should [tell HMRC in writing](#) if this happens.

You can't apply if you have primary protection.

To apply for individual protection 2014, please [click here](#).

If you are at all unsure or have any questions about the lifetime allowance and the current protections, please contact us to discuss further.

