

The standard lifetime allowance is £1.03 million. It will increase each year in line with CPI inflation.

If you think you could be affected now or in the future, please seek personal financial advice. The specialists on our Pensions Helpdesk on 0117 980 9926 can answer your questions or put you in touch with an adviser.

HOW DO I KNOW IF I AM NEAR THE LIFETIME ALLOWANCE?

You should consider the value of all your private and work pensions, calculated as:

- Money purchase pensions (e.g. SIPP) not yet taken = the current value.
- Final salary pensions not in payment = 20 x the annual pension due, plus any additional tax-free cash.
- Pensions taken since 5 April 2006 = the percentage of the lifetime allowance used up, as stated by that pension provider. This percentage does not change when the lifetime allowance changes (unless you hold primary protection – see page 2).
- Pensions taken before 6 April 2006 = 25 x the annual pension. If you have taken pension benefits after 5 April 2006, use the value as at the date you first took benefits after 5 April 2006; for drawdown this is 25 x the maximum income (for flexible drawdown this is the maximum which would have applied when you converted). If you have a drawdown pension set up before April 2006 and have not taken any further benefits you should use 20 x maximum income if:
 - you are in capped drawdown;
 - you converted to flexible drawdown after 5 April 2015. This is the maximum which would have applied when you converted;
 - you converted to flexible drawdown before 6 April 2015 in a pension year which started after 26 March 2014. This is the maximum which would have applied when you converted.

HOW IS THE LIFETIME ALLOWANCE MEASURED?

Whenever you take benefits from a pension, you use up a percentage of the lifetime allowance. This is called a Benefit Crystallisation Event (BCE). For example, a pension fund worth £103,000 from which you take benefits in 2018/19 will use up 10% of the lifetime allowance.

Each time your pension is measured against the lifetime allowance you will receive a certificate showing the percentage of the standard lifetime allowance this has used (unless you have fixed or individual protection – see page 2). Unless you hold lifetime allowance protection, using up more than the standard lifetime allowance will result in a tax charge.

WHEN IS THE LIFETIME ALLOWANCE MEASURED?

- You use your pension fund to buy an annuity, move into drawdown, take an uncrystallised funds pension lump sum or take tax-free cash before 75. The percentage is based on the value of the pension fund used. If you buy an annuity from drawdown, only the value above the amount you moved into drawdown is taken into account.
- You start to receive tax-free cash and/or a pension from a final salary pension scheme before 75. The percentage is based on the annual pension payment and tax-free cash amount.
- You reach 75 with pension benefits which you have not taken or which are in drawdown. For drawdown funds, only the value above the amount you moved into drawdown is taken into account. If the drawdown fund value at 75 is lower than the amount moved into drawdown there will be nothing additional to measure against the lifetime allowance.
- You die before 75 without having taken benefits from the pension. The percentage is based on the value of the fund. Life cover/insurance written under pension rules may also be included.
- You transfer to a Qualifying Recognised Overseas Pension Scheme before 75. The percentage is based on the value of the transfer.
- You have an excessive increase on a scheme in payment, such as a final salary pension.
- Various one-off payments from a pension scheme may also be measured against the lifetime allowance.

WHAT WILL MY PENSION PROVIDER NEED TO KNOW?

When you take benefits from a pension your provider will need to know if it will put you over the lifetime allowance and therefore typically ask:

- Have you started to take pension benefits since 5 April 2006? If so, what percentage of the lifetime allowance have you already used? This figure is on the certificate issued when taking benefits.
- If not, are you already receiving any pensions that started before 6 April 2006? If so, they will ask for the latest annual income. If in drawdown, they will need to know the amount to take into account - see 'How do I know if I am near the lifetime allowance?' section. They may also need additional information.

Alternatively, they may simply ask you whether you are likely to exceed the lifetime allowance by taking these benefits.

This factsheet is based on our understanding of current and proposed legislation as at 6 April 2018, which is subject to change. It is a brief summary that cannot cover every nuance. Any tax benefits or charges will depend on your circumstances. If you are at all unsure you should seek personal advice.

WHAT HAPPENS IF I EXCEED THE LIFETIME ALLOWANCE?

Most people will never exceed their lifetime allowance. If you do, you can:

- Take the excess as a lump sum before 75, less a 55% lifetime allowance charge
- Retain the excess in the pension fund, before or after 75, less a 25% lifetime allowance charge

Pension income is taxable, so (for example) the combination of 40% income tax and a 25% lifetime allowance charge could be broadly equivalent to a 55% lifetime allowance charge.

LIFETIME ALLOWANCE RISE TO £1.03 MILLION

If you think you might be affected by the increased allowance, you can apply for protection against a potential lifetime allowance charge. There are two types (see page 2). There is currently no deadline for applying, although if you need protection you must apply before taking benefits to avoid a lifetime allowance charge being deducted. To apply on the HMRC website you need an HMRC Online Services account - you can create this when applying. You will not be given a certificate, but can print your details. If you cannot apply online contact HMRC on **0300 123 1079**.

Fixed protection 2016

This fixes your allowance at £1.25 million, but only if no pension benefits are accrued after 5 April 2016 – this includes personal and employer contributions and building up further benefits in a final salary scheme. You can only apply if you do not have protection from a previous year, other than individual protection 2014 (see below). You can lose, or become ineligible for, fixed protection 2016 in broadly the same way as enhanced protection (see below).

Individual protection 2016

This fixes your allowance at the value of your pensions as of 5 April 2016, up to a maximum of £1.25 million. You can continue to make and receive contributions. You will only qualify for individual protection 2016 if your pensions were worth more than £1 million in total as of 5 April 2016 and you do not hold primary protection or individual protection 2014.

OTHER FORMS OF PROTECTION

Since the introduction of the lifetime allowance, and at subsequent falls, it has been possible to apply for protection against a potential lifetime allowance charge. If you have successfully applied, you will have received a certificate from HM Revenue & Customs.

April 2006 – enhanced protection

Enhanced protection lets you take benefits from your pension without them being subject to a lifetime allowance tax charge. Certain actions can result in the loss of enhanced protection, including:

- accruing pension benefits after 6 April 2006, e.g. making pension contributions or building up further final salary pension benefits (if unsure, please check with your scheme administrator);
- in some circumstances, transferring your benefits from final salary or other defined benefit pension schemes;
- making a transfer other than a 'permitted transfer'. This could include transfers to final salary or other defined benefit schemes;

- setting up a new pension arrangement, including to receive proceeds from a pension-sharing order following divorce;
- starting, or paying to, life insurance set up under pension rules, such as an employer's group life scheme.

It is no longer possible to apply for enhanced protection.

April 2006 – primary protection

Your primary protection certificate will show a primary protection factor representing the additional amount of lifetime allowance to which you are entitled. Since 5 April 2012 this factor is applied to the higher of the standard lifetime allowance and £1.8 million. For example, if the factor shown is 2, you are now entitled to 2 x £1.8 million plus £1.8 million, i.e. a total of £5.4 million.

Benefits taken since April 2006 will have used a percentage of the lifetime allowance. Since April 2014 this percentage is applied to £1.5 million. If you exceed your additional lifetime allowance you will be subject to a lifetime allowance charge. It is no longer possible to apply for primary protection.

If you have both enhanced and primary protection you will have only one certificate and enhanced protection will apply unless it has been lost or revoked.

2012 & 2014 – fixed protection

On 6 April 2012 the standard lifetime allowance fell from £1.8 million to £1.5 million. Individuals with no other protection were able to apply (until 5 April 2012) to fix their lifetime allowance at the higher of £1.8 million or the standard lifetime allowance.

On 6 April 2014 the lifetime allowance fell from £1.5 million to £1.25 million. Individuals with no other protection were able to apply (until 5 April 2014) to fix their lifetime allowance at the higher of £1.5 million or the standard lifetime allowance.

Fixed protection 2012 and 2014 can be lost in broadly the same way as enhanced protection. This includes making contributions after 5 April 2012 (fixed protection 2012) or after 5 April 2014 (fixed protection 2014). When your pension is measured against the lifetime allowance while holding fixed protection, you use up a percentage of your personalised lifetime allowance.

2014 – individual protection

If your pensions were worth at least £1.25 million on 5 April 2014, you were able to apply for individual protection 2014. It set your allowance at the value of your pensions at 5 April 2014, up to £1.5 million, and allowed you to continue making contributions. When your pension is measured against the lifetime allowance, you use up a percentage of your personalised lifetime allowance. It was not available if you already held primary protection, including if held with enhanced protection.

TAX-FREE CASH

The maximum tax-free cash is normally limited to the lower of 25% of the benefits being taken and 25% of your remaining standard lifetime allowance. When calculating your remaining standard lifetime allowance for this purpose after reaching age 75 you should ignore any lifetime allowance used up by reaching 75 but should include any pension benefits taken after 75 as if they used up the lifetime allowance. Some people have tax-free cash protection which can increase the available tax-free cash.

Tax-free cash protection

If on 5 April 2006 you were a member of a pension scheme from which you could take more than 25% tax-free cash, this was automatically protected. It is known as scheme-specific protection. This protection will normally be lost if you transfer to another pension scheme. It may be possible for scheme-specific protection to be retained if at least two people transfer as part of the same transaction.

If you have primary or enhanced protection and your total tax-free cash entitlement on 5 April 2006 was worth at least £375,000 you could have also applied for protected tax-free cash. Your total tax-free cash entitlement was calculated by adding:

- the amount of tax-free cash to which you were entitled on 5 April 2006, but had not taken, and
- a quarter of 25 x any annual pension you were receiving on that date, regardless of the actual tax-free cash taken.

If applicable, the protected tax-free cash will be shown on your primary or enhanced protection certificate. It will be expressed as a percentage for enhanced protection and a cash amount for primary protection. The primary protection amount will be increased by 20%, in line with the increase in the lifetime allowance to £1.8 million. Any tax-free cash taken since 5 April 2006 will be revalued as if the current lifetime allowance was £1.8 million.

It is possible to amend a previous application for primary or enhanced protection, for example if you did not apply for protected tax-free cash to which you were entitled.

If you hold fixed protection 2014, primary protection or enhanced protection without tax-free cash protection, the maximum tax-free cash will be calculated by reference to the higher of the standard lifetime allowance and £1.5 million. If you hold fixed protection 2012 the maximum tax-free cash will be calculated by reference to the higher of the standard lifetime allowance and £1.8 million.

0418

GET IN TOUCH

Call us: **0117 980 9940**

(Monday to Thursday 8am-7pm,
Friday 8am-6pm and Saturday
9:30am-12:30pm)

Visit:

www.hl.co.uk

Write to us:

Hargreaves Lansdown
One College Square South
Anchor Road
Bristol
BS1 5HL