BOOLERS
TECHNICAL UPDATE

The Lifetime Allowance & forms of Protection
The Lifetime Allowance is £1 million in the 2016/17 Tax Year, however with it having previously been as high as £1.8 million, since its introduction on 6 April 2006, various forms of protection have been made available.

What is the Lifetime Allowance?
The standard Lifetime Allowance is the effective maximum for an individual's total pension arrangements in their lifetime, without triggering certain tax charges.

Pensions are tested against the Lifetime Allowance at various points, with the most obvious being when benefits are provided, either in the form of entering drawdown, purchasing an annuity or receiving a scheme pension, but also on other events, including reaching age 75 with a drawdown arrangement.

The Lifetime Allowance is to start increasing annually by the Consumer Prices Index (CPI) from the 2018-19 Tax Year.

Enhanced and Primary Protection
It was possible to protect individual's pension savings as at 5 April 2006 through two forms of protection; Enhanced Protection and Primary Protection.

Enhanced Protection required individuals to opt out of further pension accrual. In regards to Defined Contribution (SSAS, SIPP and Personal Pension) arrangements this meant no further contributions could be received, however in regards to Defined Benefit (final salary) arrangements, certain accrual could continue up to specified maximum limits. In exchange for opting out of further accrual, the individual's pension savings could grow unlimited without the fear of breaching the Lifetime Allowance, and the associated tax charges (detailed later).

Primary Protection was available to individuals with pension savings worth in excess of the standard lifetime allowance of £1.5 million, at 6 April 2006. This protection does not offer the same guarantee to avoid tax charges when benefits are taken, but allows the pension savings to increase in line with the standard lifetime allowance from 5 April 2006. Any excess growth is available as a lump sum or a pension, both of which have tax charges, which are detailed below.

Fixed Protection 2012 & 2014
Fixed Protection 2012 was introduced to take effect from 6 April 2012, for those without Enhanced or Primary Protection, and protects pension savings at £1.8 million, following the reduction of the Lifetime Allowance to £1.5 million on this date.

Fixed Protection 2014 was introduced to take effect from 6 April 2014 and protect pension savings at £1.5 million, following the reduction of the Lifetime Allowance to £1.25 million. This was available to those without Enhanced Protection, Primary Protection or Fixed Protection 2012.

Similar to Enhanced Protection, in order to qualify for these protections an application was required by HM Revenue & Customs (HMRC) by this date and the individual had to opt out of further accrual to their pension arrangements.

Individual Protection 2014

This form of protection has been made available for those with pension savings valued in excess of £1.25 million as at 5 April 2014, up to a maximum of £1.5 million, provided the individual does not have Primary Protection (or dormant Primary Protection if they applied for both Primary and Enhanced Protection). It is therefore available to those with Enhanced Protection, Fixed Protection 2012 and Fixed Protection 2014, provided pension savings are valued in excess of £1.25 million as at 5 April 2014.

Like Primary Protection, Individual Protection provides a personalised Lifetime Allowance based on the value of the individual's pension savings as at 5 April 2014 and will apply until such time as the standard Lifetime Allowance increases to this level.

This form of protection is therefore appropriate for those wanting:

- to top up pension savings if the value subsequently falls in value
- to receive employer pension contributions, where these benefits cannot be received in another form, or where death in service benefits require them to remain an active member of the employer's pension scheme
- to continue to accrue pension benefits following 5 April 2014, but wanting to protect existing pension savings

This protection is still available, with individuals having until 5 April 2017 to apply with HMRC.

Fixed & Individual Protections 2016

The most recent change, on 6 April 2016, reduced the Lifetime Allowance to £1 million. HMRC introduced further Fixed and Individual Protections, with Fixed Protection 2016 providing an increased Lifetime Allowance of £1.25 million, for those willing to stop future pension accrual, and Individual Protection for those with funds in excess of £1 million.

Unlike previous protections there is no deadline to apply to HMRC for these, however the protection must be in place by the first Benefit Crystallisation Event, which tests benefits against the Lifetime Allowance, after 5 April 2016.

The tax charges

For those without protection, or where protection is breached, there are tax charges payable on the commencement of benefits where pension savings are in excess of the standard lifetime allowance.

If this excess is paid as a lump sum then the tax charge is 55% of the excess, if paid as a pension then the tax charge is 25% of the excess.

There will be no tax charges for those with Enhanced Protection or those who had taken benefits from all their pension arrangements prior to 5 April 2006.

The various other forms of protection will help limit the tax charges payable, however these forms do not remove the possibility of tax charges being payable in the future. The limits in regards to the various protections are relatively simple and are shown below:

- Fixed Protection 2012 allows growth to £1.8 million, with maximum Pension Commencement Lump Sums (PCLS) of £450,000
- Fixed Protection 2014 allows growth to £1.5 million, with maximum PCLS of £375,000
- Fixed Protection 2016 allows growth to £1.25 million, with maximum PCLS of £312,500
- Individual Protection 2014 protects pension savings over £1.25 million at 5 April 2014, subject to a maximum £1.5 million, with maximum PCLS of £375,000
- Individual Protection 2016 protects pension savings over £1 million at 5 April 2016, subject to a maximum £1.25 million, with maximum PCLS of £312,500

Primary Protection is more complex and incorporates a personalised calculation based on the value of benefits at 5 April 2006, however an additional factor of £1.8 million will apply where this is greater than the standard Lifetime Allowance.

For those with Primary or Enhanced Protection that had PCLS of in excess of 25% of benefits at 5 April 2006 they were able to protect these as part of their protection application and these are stated on their personalised certificates. For those with Primary or Enhanced Protection without any form of PCLS protection, PCLS is limited to £375,000, rather than the £250,000 available to those without any form of protection from 6 April 2016.

Scheme specific lump sum protection

It was also possible to protect lump sum rights which were greater than 25% of individual pension savings in a specific arrangement, such as an occupational pension scheme like a SSAS, at 5 April 2006.

The initial intention for this protection was to allow these lump sums to increase in line with the increase in the standard lifetime allowance, however given the reductions in Lifetime Allowance since 6 April 2012 the rules have been amended to reflect a Lifetime Allowance of £1.8 million.

If you require further information, please contact us:

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This technical document is for illustrative purposes only and should not be construed as advice or guidance. It is based on our understanding of current taxation, law and practice (August 2016), which is subject to change.