**BOOLERS’ TECHNICAL GUIDES**

**The Lifetime Allowance & forms of Protection**

From 6 April 2014 the Lifetime Allowance will be reduced to £1.25 million, from £1.5 million in tax year 2013/14. This follows a similar reduction from £1.8 million to £1.5 million in the 2012/13 tax year.

**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. This was introduced by the previous Labour Government and took effect from 6 April 2006.

**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 any tax charges.

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 guarantees 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**

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.

Similar to Enhanced Protection, in order to qualify for this protection 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.

**Fixed Protection 2014**

Fixed Protection 2014 has been 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 is available to those without Enhanced Protection, Primary Protection or Fixed Protection 2012.

In order to qualify for Fixed Protection 2014 an application must be received by HMRC by 5 April 2014, with the individual opting out of further accrual to their pension arrangements from this date.

Applications can be made in paper form or online and we will be looking to write to our clients that do not have any other form of protection and for whom we feel that this form of protection is appropriate.

**Individual Protection**

The Government is also planning to introduce a further form of Protection in connection with the Lifetime Allowance reduction, with provisions included in the Finance Bill 2014 that is yet to receive Royal Assent.

This form of protection will be made available for those with pension savings valued in excess of £1.25 million as at 5 April 2014, provided they do 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.

Individual Protection will provide 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

The appropriate forms are intended to be made available by HMRC from August 2014, with individuals having until 5 April 2017 to apply.

**The tax charges**

For those without protection 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 Fixed Protection 2012, Fixed Protection 2014 and Individual Protection 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
* Individual Protection (when available) will protect pension savings up to their value at 5 April 2014, with maximum PCLS of £375,000

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 £312,500 available to those without any form of protection from 6 April 2014.

**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, as at 5 April 2006.

The initial intention for this protection was to allow for 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.*