

IN 440RM

Another cut to Pensions Tax Relief – the Lifetime Allowance reduces again

The Lifetime Allowance reduces from £1.5 million to £1.25 million on 6 April 2014. The Lifetime Allowance sets the limit for the amount of pension savings that enjoys the tax privileges associated with UK pension plans. Benefits that exceed this Lifetime Allowance limit are subject to a tax charge.

Assessing benefits against the Lifetime Allowance

A person's pension benefits are assessed against the Lifetime Allowance at the point at which they come into payment.

Benefits in a money purchase plan such as a personal pension are assessed using the value of the fund. For example using the new figure of £1.25 million, a fund of £250,000 uses up 20% of the Lifetime Allowance.

In a final salary scheme the pension coming into payment is used. The initial annual pension is multiplied by 20 to give a notional fund. For example a person starting to receive a pension of £20,000 per annum would have a notional fund of £400,000. Against the new figure of £1.25 million this uses up 32% of the Lifetime Allowance.

What are the options?

A person with substantial pension savings has two options.

Option 1

He can continue to make pension savings and accept that he will have to pay a tax charge on the excess over the new reduced Lifetime Allowance.

Option 2

He can stop all forms of pension savings before 5 April 2014 and apply for Fixed Protection 2014. Fixed Protection 2014 will preserve his Lifetime Allowance at the old level of £1.5 million.

More about Fixed Protection 2014

People with Fixed Protection 2014 retain a Lifetime Allowance of £1.5 million.

Application for Fixed Protection 2014 must be made between 12 August 2013 and 5 April 2014.

Application is made by completing form APSS228. This can be printed and posted to HMRC or submitted on line at hmrc.gov.uk/pensionschemes/fp14online

It is best to inform your employer that you have Fixed Protection and give the number of your protection certificate.

Fixed Protection is lost if there is any pension savings or pension accrual after 5 April 2014.

Fixed Protection 2014 will be lost if the person is auto enrolled into a pension scheme and fails to opt out within the first month.

Action is required before the deadline of 5 April 2014!

Each time the Government reduces the Lifetime Allowance more and more people are at risk of being caught by the Lifetime Allowance tax charge. People should review their pension arrangements and consider whether to continue or stop their pension savings. Further information is available from your usual consultant and from the HMRC website.



44 BENEFIT SOLUTIONS