

Pension scheme allowances and tax charges

This note provides details of the tax privileged limits that apply when pension benefits are taken, the lifetime allowance, and the tax charges that can arise if this limit is exceeded, together with information on the various protection regimes available. This information is for your guidance only. Sanlam Investments and Pensions accepts no liability for any action taken or not taken by an individual or firm as a result of the contents of this material. Whilst we have made every effort to ensure the accuracy of this material we cannot accept responsibility for any consequences (financial or otherwise) arising from relying on it. It is important to note that tax treatment depends on individual circumstances and may change in the future.

Standard Lifetime Allowance (SLA)

The SLA is currently £1,073,100.

If the SLA is exceeded you will be liable for a lifetime allowance charge unless you have been granted protection from this by HMRC.

Lifetime allowance charge

The lifetime allowance charge is a charge to income tax that arises on the excess over the SLA, and is called a chargeable amount. This occurs at a 'benefit crystallisation event', which is usually when benefits are paid. The scheme administrator and member are jointly liable to the charge which will be deducted from your fund before benefits are paid. Where the chargeable amount arises on death, the recipient of the payment giving rise to the charge is solely liable.

Tax charges on payments from registered pension schemes

Charges	Rates
Lifetime Allowance charge	55% if the amount over the SLA is paid as a lump sum 25% if the amount over the SLA is paid as pension income
Death benefits charge	Tax free before age 75 so long as paid within 2 years of notification of death. Otherwise taxed on basis client was over age 75. Taxed at beneficiary's personal rate of income tax on death after age 75. If paid to a trust a 45% tax charge applies. On any subsequent payment to a beneficiary, the beneficiary can reclaim the tax paid above their marginal rate.
Serious ill health lump sum charge	Tax free if paid before age 75. Taxed at individual's personal rate if paid after age 75.
Unauthorised payment charge	40%
Unauthorised payment surcharge	15%
Scheme sanction charge	40%

Protection from the lifetime allowance charge

In certain situations, for example if you have built up a large pension, you can have protection from the SLA. Broadly this means that you can build up pension worth more than the SLA but either:

- Not pay the lifetime allowance charge
- Pay this tax on only part of the excess over your lifetime allowance

More information on the various forms of protection which you can, or have been able to, apply for, are set out below.

Enhanced protection offers protection from a potential lifetime allowance charge for all individuals with pension rights at 5 April 2006 whether they are valued at more than £1.5 million or not as long as certain conditions are met. It was possible to register for this enhanced protection up to 5 April 2009. It is a means to protect pension rights built up before 6 April 2006 from the lifetime allowance charge when those rights crystallise after that date. This will usually mean that your benefits can be paid without checking whether the standard lifetime allowance is exceeded and there will be no lifetime allowance charge on the amount paid even if it does in fact exceed that figure.

Primary protection: If the total value of your pension rights was greater than £1.5 million at 5 April 2006, it was possible to register for primary protection up to 5 April 2009. The purpose of this was to protect the value of your pension rights on 5 April 2006 in relation to the lifetime allowance charge. If you have been granted primary protection you will have a higher personal lifetime allowance than the standard lifetime allowance. Your individual lifetime allowance will be increased in line with increases to the standard lifetime allowance.

Fixed protection 2012 (FP12): The standard lifetime allowance (SLA) reduced to £1.5 million on 6 April 2012. If you were granted FP12, you will have a protected lifetime allowance of £1.8 million. This will apply until such time as the SLA increases to £1.8 million or more. Any pension rights valued at more than £1.8 million, or the SLA if higher, at the time benefits are taken, will be subject to a lifetime allowance charge.

Fixed protection 2014 (FP14): The standard lifetime allowance (SLA) reduced to £1.25 million on 6 April 2014. If you were granted FP14, you will have a protected lifetime allowance of £1.5 million. This will apply until such time as the SLA increases to £1.5 million or more. Any pension rights valued at more than £1.5 million, or the SLA if higher, at the time benefits are taken, will be subject to a lifetime allowance charge.

Individual protection 2014 (IP14): If you applied for and were granted IP14, you have a personal lifetime allowance based on your pension savings as at 5 April 2014 of up to £1.5 million. This will apply until such time as the SLA increases to a greater amount than your personalised allowance. You can continue to make pension savings without losing entitlement to IP14.

Fixed protection 2016 (FP16): The standard lifetime allowance (SLA) reduced to £1 million on 6 April 2016. If you apply for and are granted FP16, you will have a protected lifetime allowance of £1.25 million. This will apply until such time as the SLA increases to £1.25 million or more. Any pension rights valued at more than £1.25 million, or the SLA if higher, at the time benefits are taken, will be subject to a lifetime allowance charge.

Individual protection 2016 (IP16): If you apply for and are granted IP16, you will have a personal lifetime allowance based on your pension savings as at 5 April 2016 of up to £1.25 million. This will apply until such time as the SLA increases to a greater amount than your personalised allowance. To apply for IP16, you need a fund of at least £1 million at 5 April 2016 and must not already be registered for primary protection. You can continue to make pension savings without losing entitlement to IP16. You can apply for IP16 even if you already have enhanced protection, FP12, FP14 or FP16.

Please note that enhanced protection, FP12, FP14 and FP16 can be lost in certain circumstances, for example, if a contribution is paid to a registered pension scheme.

Information on how to apply for protection can be found on HM Revenue and Customs website at www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance

HMRC Look-up Service

There is now a lifetime allowance look-up service available to scheme administrators to check an individual's lifetime allowance protection. If you applied for protection from the lifetime allowance, you will have a protection notification number and scheme administrator reference number which can be found in your personal tax account at www.gov.uk/personal-taxaccount.