

THE LIFETIME ALLOWANCE



WHAT IS THE LIFETIME ALLOWANCE?

The Lifetime Allowance (LTA) limits the amount of savings that can be built up inside a registered pension scheme before a LTA charge applies. The standard LTA for 2020/21 is £1,073,100 and it has been frozen at this level until April 2026.

The LTA available to a particular individual may be different, depending on their specific circumstances.

WHAT IS THE LTA CHARGE?

When benefits from a HMRC registered pension scheme come into payment (e.g. when a member takes a pension or lump sum, reaches age 75, dies or transfers their pension overseas) they are tested against the LTA in force at that point. These tests are called Benefit Crystallisation Events (BCE).

A LTA charge is applied on the amount coming into payment that exceeds the individual's remaining available LTA at the time of the BCE.

Holding a pension that exceeds the current LTA does not trigger a LTA charge. Only a BCE will potentially trigger a LTA charge.

The LTA charge is applied to any HMRC registered scheme regardless of whether the individual receiving the benefits is resident or domiciled in the UK.

WHAT IS THE PURPOSE OF THE LTA CHARGE?

The purpose of the LTA charge is to recover the excess tax reliefs the fund has benefited from (initial contributions and tax free growth of the fund).

WHAT IS THE LTA CHARGE RATE?

The LTA excess charge will depend on how the excess benefits are taken from the scheme:

- 55% if the excess is taken as a lump sum
- 25% if the excess remains invested and is taken as income. UK tax residents will also be taxable at marginal rates.

NB: Transfers to a QROPS (Qualifying Recognised Overseas Pension Scheme) are only ever subject to a 25% LTA charge (this would be in addition to any overseas transfer charge).

WHAT PROTECTIONS ARE AVAILABLE NOW OR MAY BE HELD BY AN INDIVIDUAL?

An individual may hold one or more of the following forms of protection:

- Primary protection
- Enhanced protection
- Fixed protection 2012, 2014 and 2016
- Individual protection 2014 and 2016.

WHICH LTA PROTECTIONS ARE AVAILABLE?

All forms of protection are closed to new applications except the following:

Fixed protection 2016 is available for individuals that do not already hold enhanced, primary, fixed protection 2012 or fixed protection 2014. The lifetime allowance will be fixed at £1.25 million. Please note that the protection cannot be claimed if the individual or their employer have contributed since 5 April 2016.

Individual protection 2016 is available for individuals that already hold enhanced protection, fixed protection 2012 or fixed protection 2014 and 2016. The LTA is protected at the lower of, the value of pension savings at April 2016, or £1.25 million. The pension savings must have been worth more than £1 million at 5 April 2016 and contributions and accruals can continue.

ENHANCED LTA FOR INDIVIDUALS RESIDING OVERSEAS

An alternative mechanism for protection, which is less well known, for individuals who are still benefiting from their UK scheme whilst non-UK resident is to apply for the non-residence enhancement factor (for money purchase schemes).

The non-resident LTA enhancement factor is available to individuals who have been a 'relevant overseas individual' at any point in an 'active membership period' of a registered pension scheme.

The enhancement will be based on the physical contribution (or benefit accrual) that has occurred during the period the client was classed as a relevant overseas individual. The client will have to have had active membership of the relevant pension scheme to be able to apply for the protection.

NB: The enhanced LTA is not an automatic entitlement. An individual must notify HMRC using form APSS 202.

HOW TO APPLY FOR OR CHECK EXISTING LTA PROTECTION(S)?

Individuals can apply or check their existing protection online with HMRC.

There is no time limit for applying for either of the two 2016 protections; however, for the enhanced LTA this must be applied for no later than five years after 31 January following the end of the tax year in which either the accrual period ends or the transfer took place.

⚠ The LTA protection rules can be complicated and the methods in which any protection can be lost differ depending on the type of pension scheme involved.

IMPORTANT NOTES

For financial advisers only. Not to be distributed to, nor relied on by, retail clients.

Please note that every care has been taken to ensure that the information provided is current and in accordance with our understanding of current law and Her Majesty's Revenue and Customs' (HMRC) practice as at March 2021.

You should note however, that we cannot take on the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change.

