

Pensions Tax

Understanding the Lifetime Allowance



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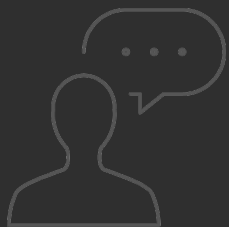
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Learning Objectives

By the end of this seminar you will be able to;

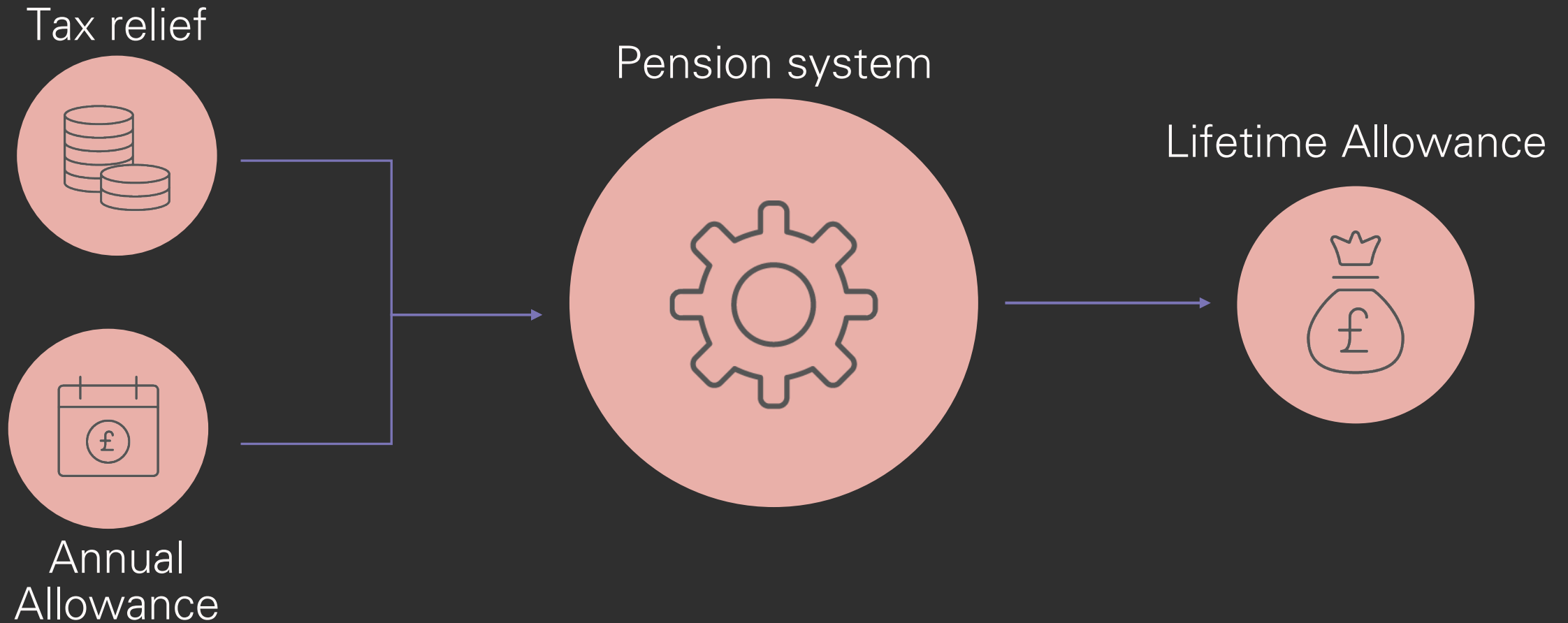
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**describe the
operation of
the lifetime
allowance**

**explain the
differing
lifetime
allowance
protections**

**demonstrate
how planning
is affected by
the LTA**

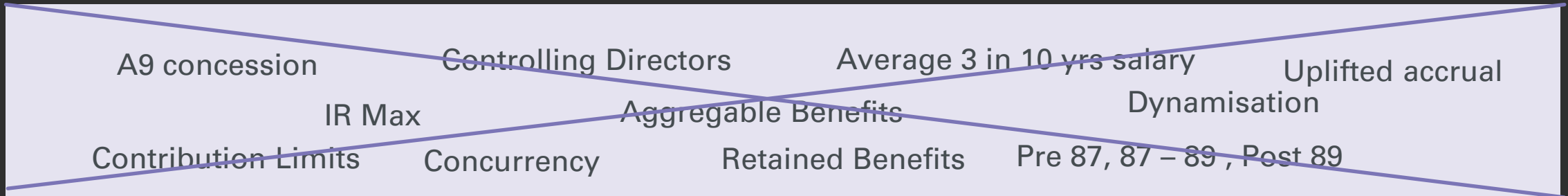
Pension Tax Limits



Lifetime Allowance

The basics, limits and Benefit Crystallisation Events

Simplification



6th April 2006 / A-day

Lifetime and Annual Allowance

Primary

Enhanced

Pension Ages

Tax Free Cash

Fixed 2012

Individual 2014

Fixed 2014

Individual 2016

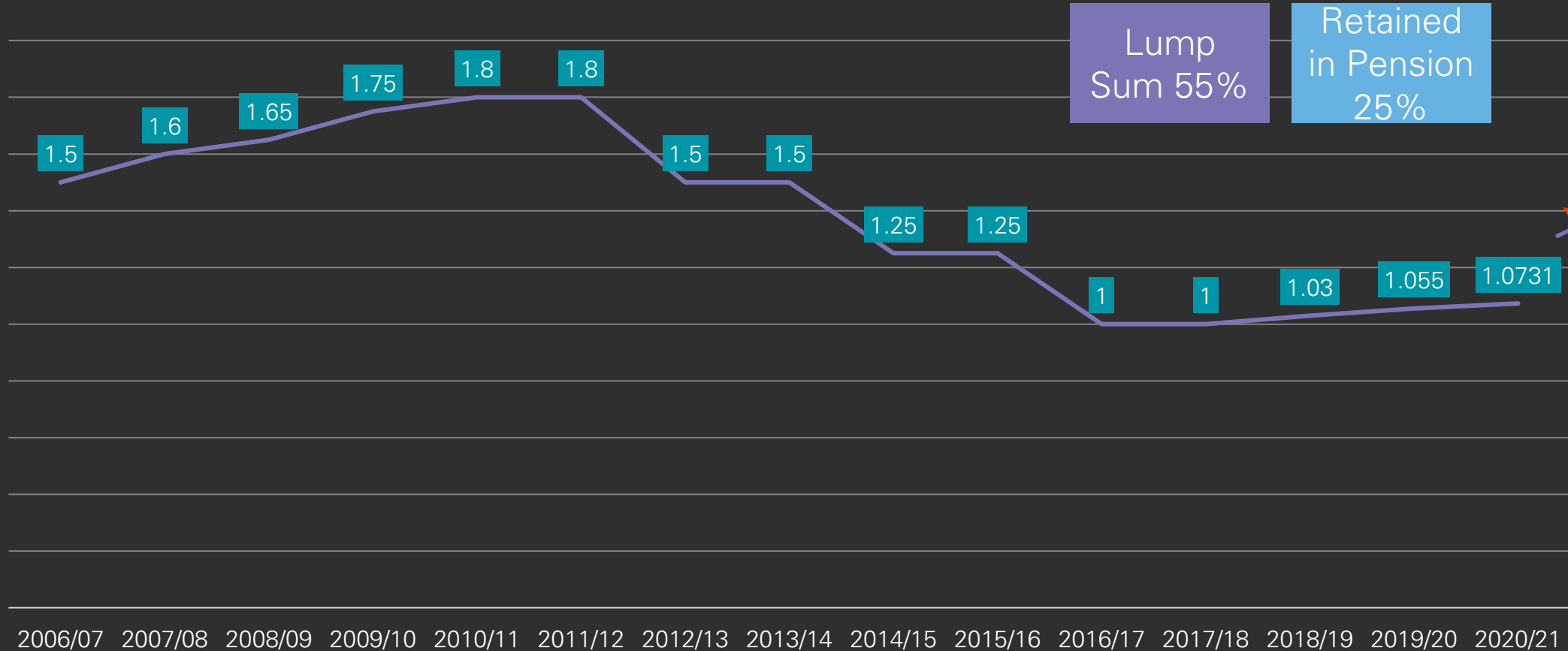
Fixed 2016

Lifetime Allowance

Only prior to
age 75

Lump
Sum 55%

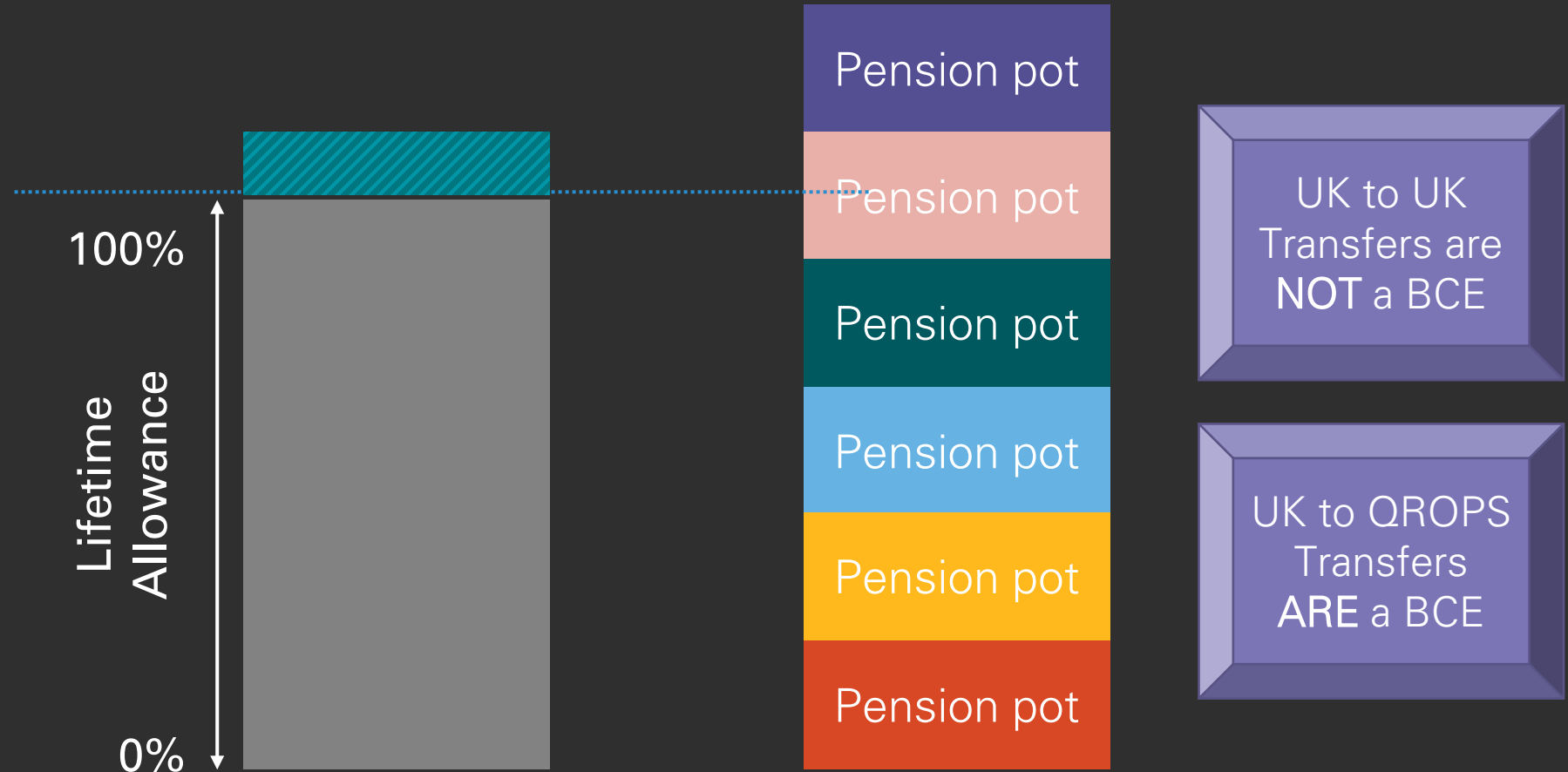
Retained
in Pension
25%



Main Benefit Crystallisation Events

Number	Event	Value
BCE1	Drawdown	Amount designated
BCE2	Scheme Pension	20 x pension
BCE4	Lifetime Annuity	Purchase price
BCE5a	Drawdown at 75	Drawdown fund
BCE6	Lump Sum	Amount of lump sum
Pre A-day	1st post A-day BCE	25 x pension/Max GAD

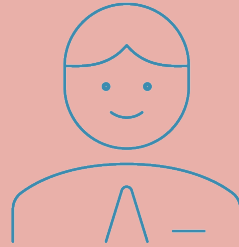
When the charge is payable



BCEs – prevention of overlap

Drawdown tested on entry and earlier of:

- annuity purchase, or
- age 75
- transfer to a QROPS



Brian:

- Puts £750,000 after TFC in drawdown
- takes £200,000 of income over time, and
- reaches age 75 with a fund of £820,000.

LTA used = £820,000 – £750,000 = £70,000.

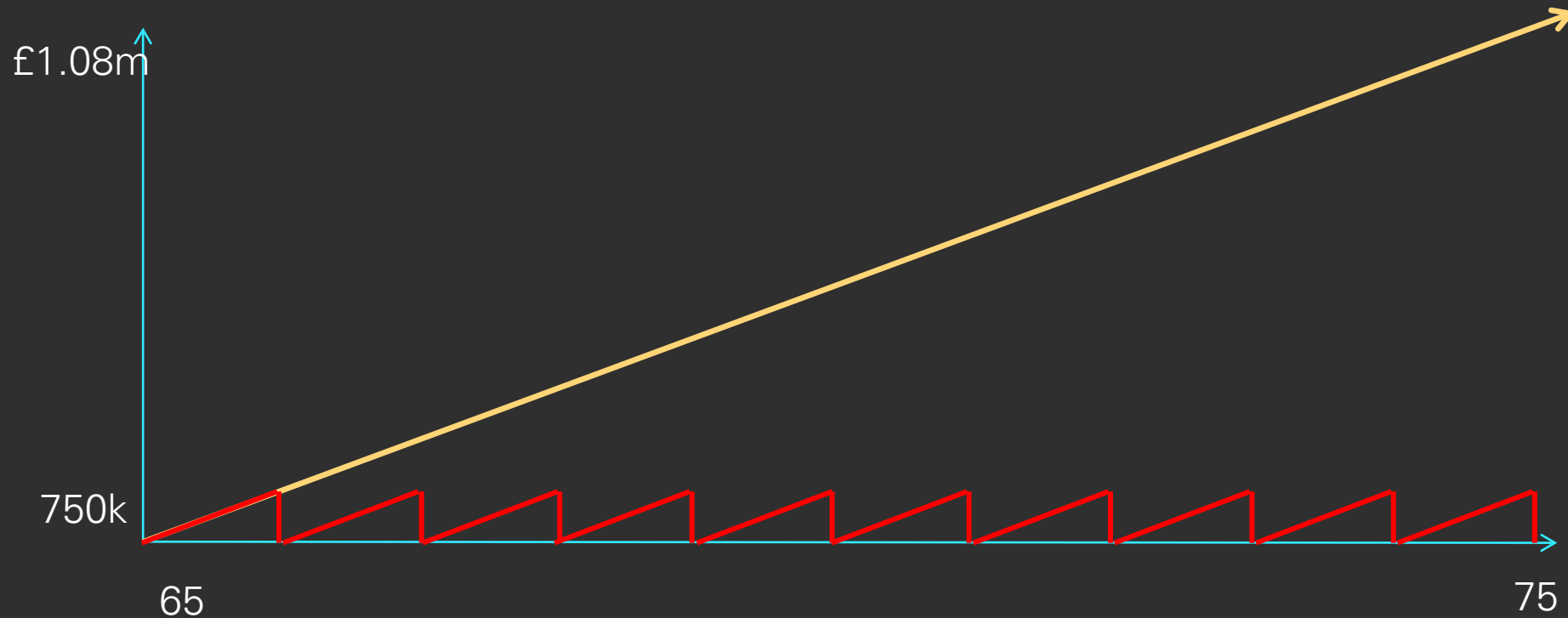
Growth only counted, income taken is ignored.

The Drawdown Dilemma

£1m pot – Take £250k PCLS, £750k in Drawdown

3% Growth Net of Charges

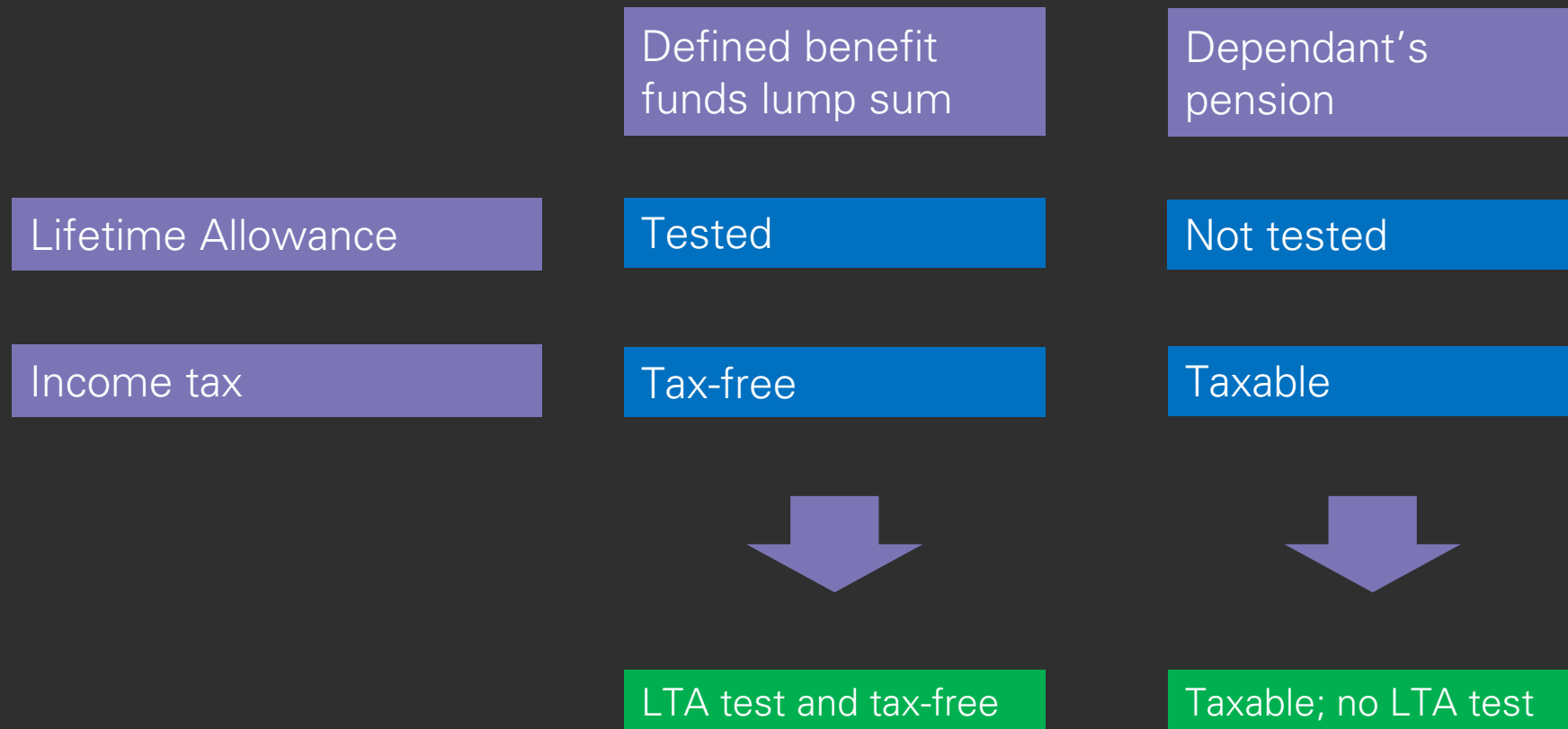
The Drawdown Dilemma



Lifetime Allowance

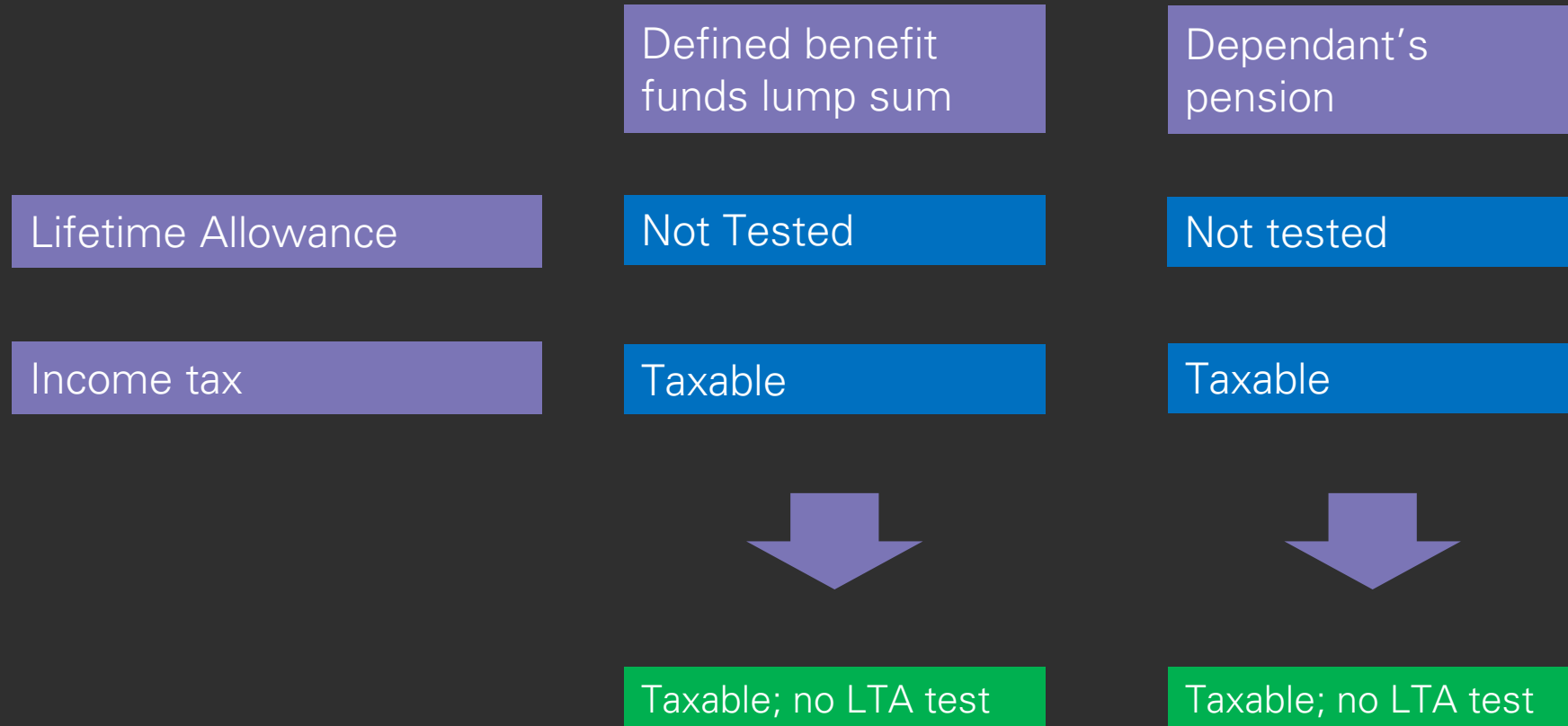
Death Benefits

DB death benefits from uncrystallised funds– pre 75



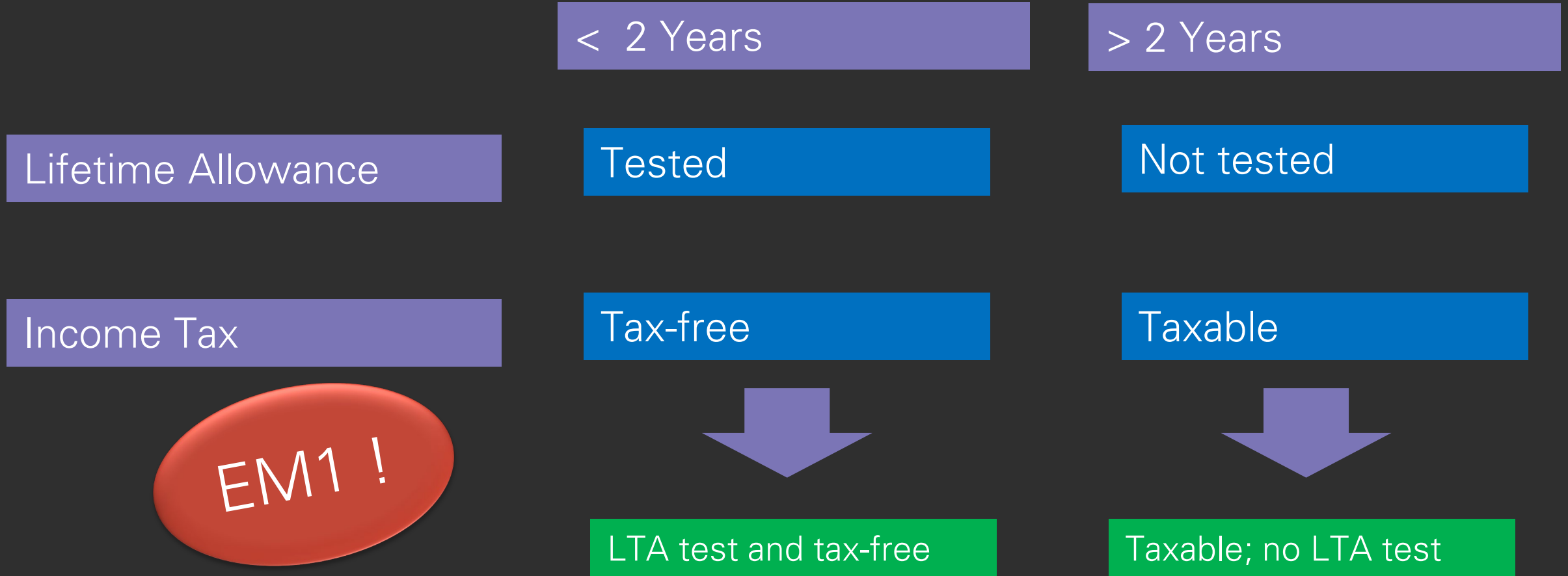
LTA charge paid by recipients.

DB death benefits from crystallised funds post 75



LTA charge paid by recipients.

Unvested DC death benefits (pre 75)



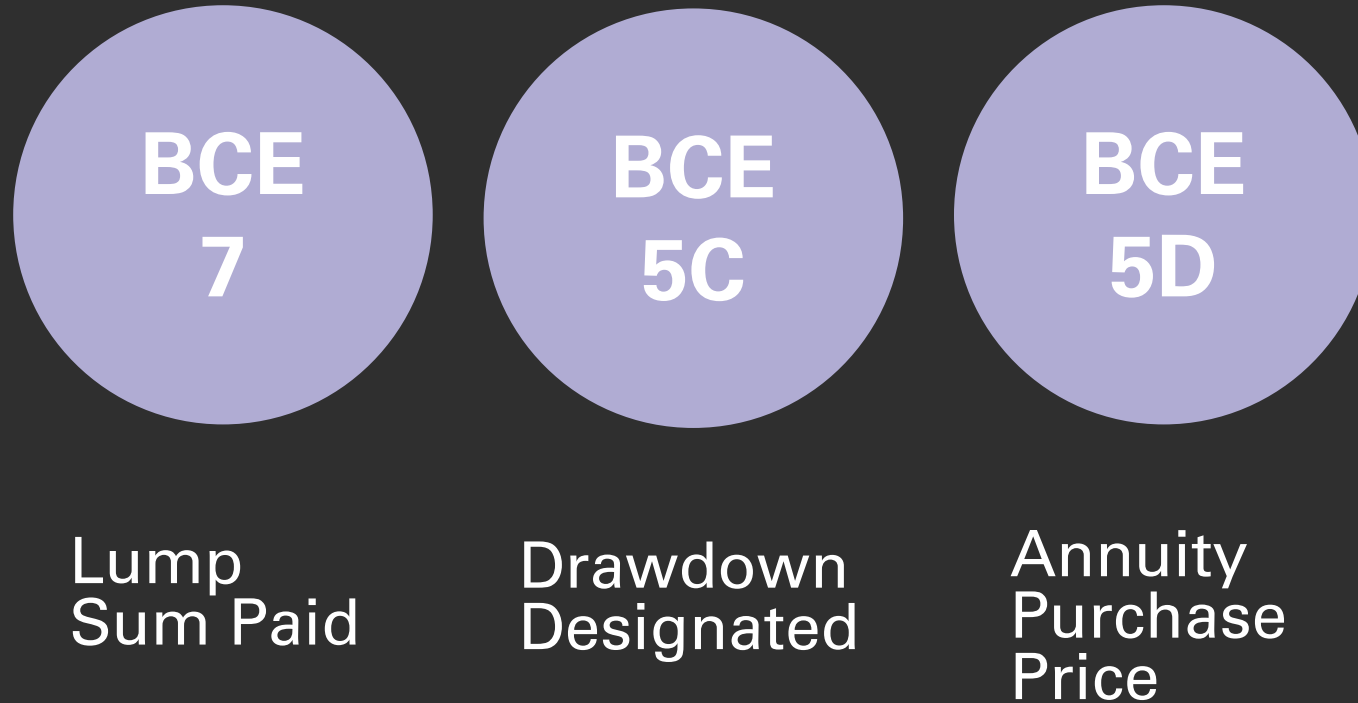
Vested DC death benefits

	< 75	> 75*
Lifetime Allowance	Not tested	Not tested
Income tax	Tax-free**	Individuals: <ul style="list-style-type: none">• Marginal Rate Non Individuals: <ul style="list-style-type: none">• 45%

* Unvested benefits post 75 have same tax treatment

** Lump sums from crystallised funds must meet the 2 year rule

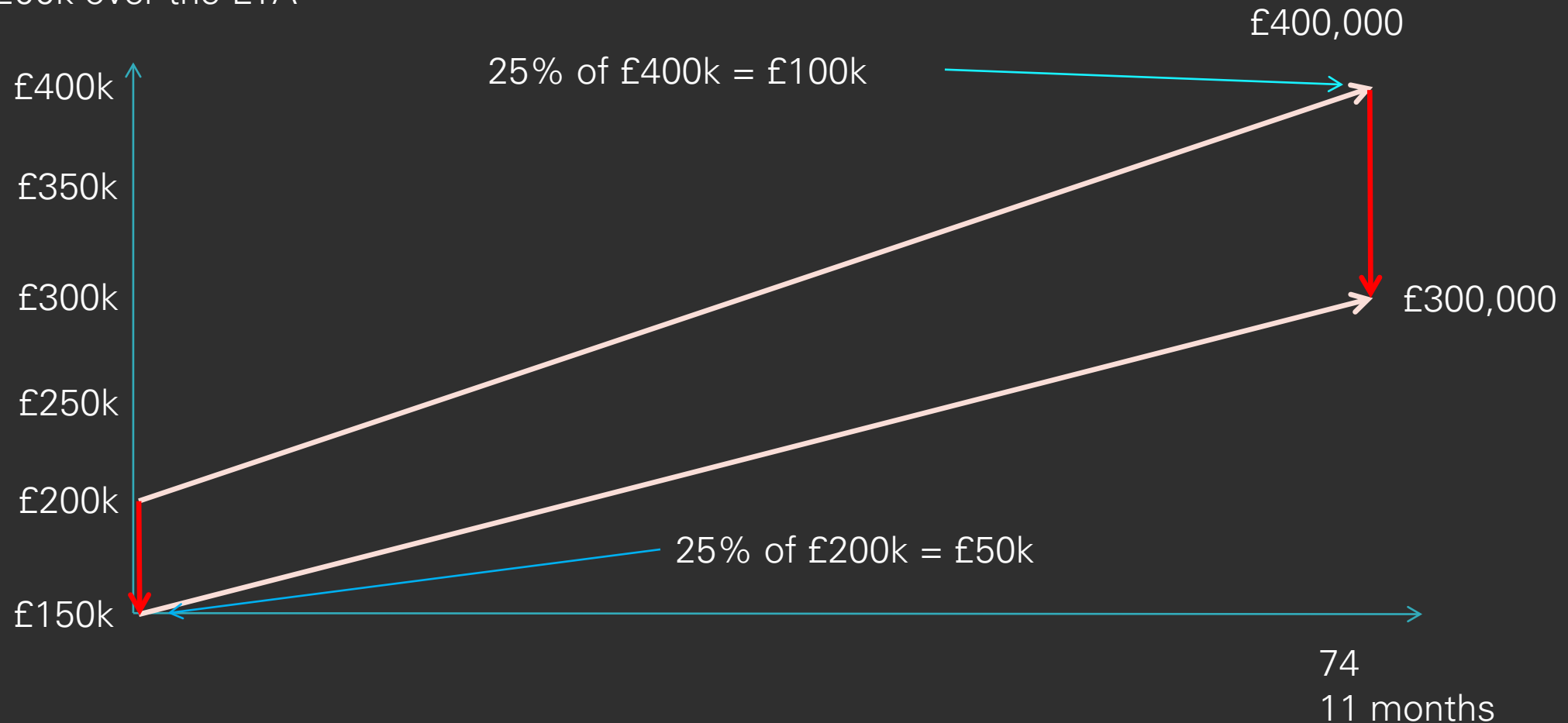
Death and the LTA



All BCEs are treated as happening simultaneously for the purposes of determining liability to LTA excess charges, which the beneficiaries pay.

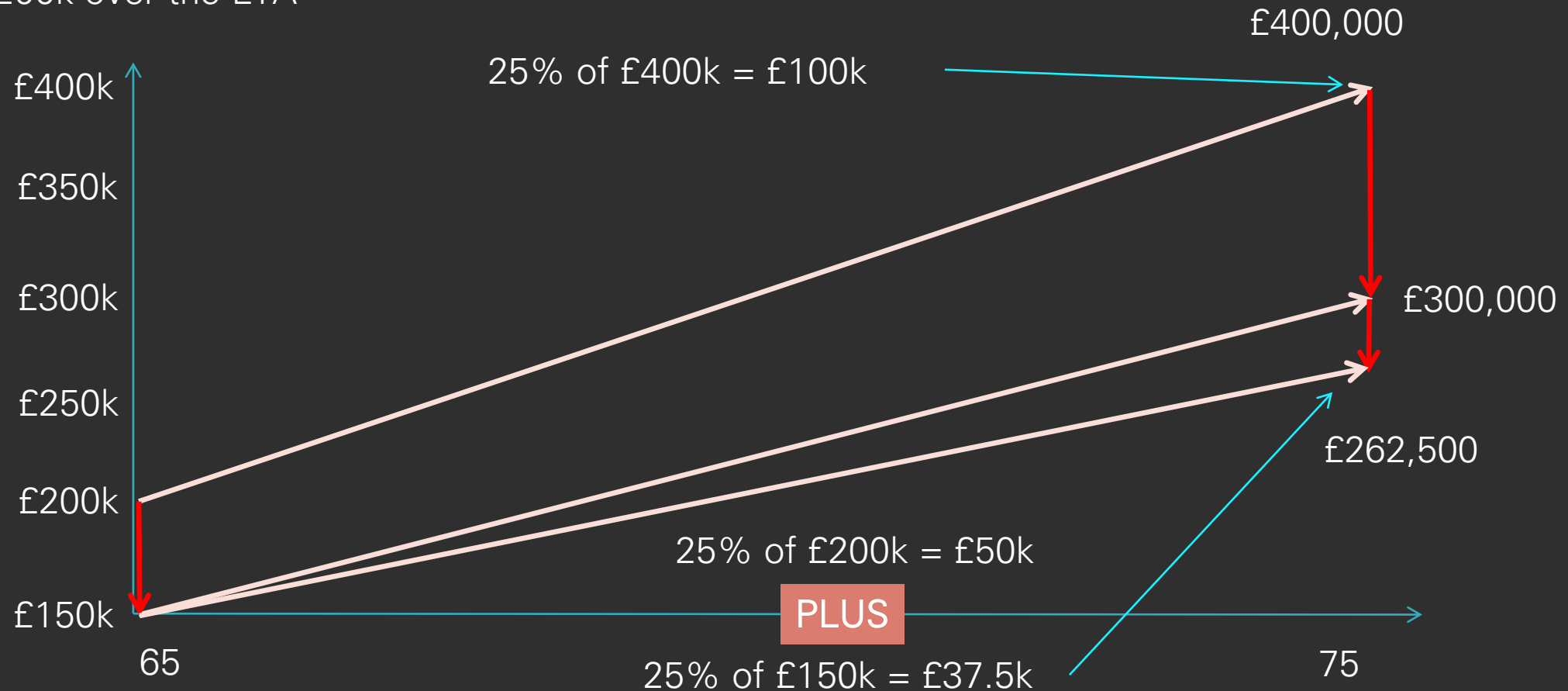
When do you pay the charge? – Death before 75

£200k over the LTA



When do you pay the charge? – Death after 75

£200k over the LTA



Lifetime Allowance

The Protections

Primary Protection – example



(Value of individual's pension rights at 5 April 2006 – £1.5m) ÷ £1.5m

Example

(£1.7m - £1.5m) ÷ £1.5m = 0.13 the LAEF

What is the personal LTA?

Personal lifetime allowance at BCE date:

£1.8m + (0.13 x £1.8m) = £2,034,000

↑
ULA

↑
ULA

Enhanced



Who

Any value at A-day



How

“Unlimited” LTA (no charges can apply)
Tax free cash protection % if >£375k



What else

Loss of protection as for Fixed (covered later)
Had to surrender any “excess rights” prior to application.
No further contribs/accrual after 5th April 2006

Fixed Protections



Who

Anyone without:

- Primary, or
- Enhanced, or
- Other Fixed Protection

Any size of rights



How

Fixed LTA of £1.8, £1.5m & £1.25m



What else

Used as LTA for all FA 2004 purposes

No further contribs/accrual after relevant dates

LTA charge on benefits over fixed LTA

Until standard LTA > Protected LTA

Individual Protections



Eligibility

> £1.25 million on 5 April 2014
> £1 million at 5 April 2016
No Primary Protection



Mechanics

Personal LTA of “relevant amount”
Used for all Part 4 Finance Act 2004 purposes



Other matters

Capped £1.5m/£1.25m
Future pension savings allowed
Not uprated but LAEF can apply
Until standard LTA > “relevant amount”

Lifetime Allowance

Losing Protections

Losing Protection

Primary Protection

Divorce:

- Debits reduce relevant amount

Enhanced Protection

New Arrangement

Some transfers (impermissible)

Benefit Accrual

- DC – Relievable Contributions
- CB – Increase in amount available
- DB – Increase in benefit

Losing Protection continued

Individual

Divorce:

- Debits reduce relevant amount
- 5% offset

Fixed Protection

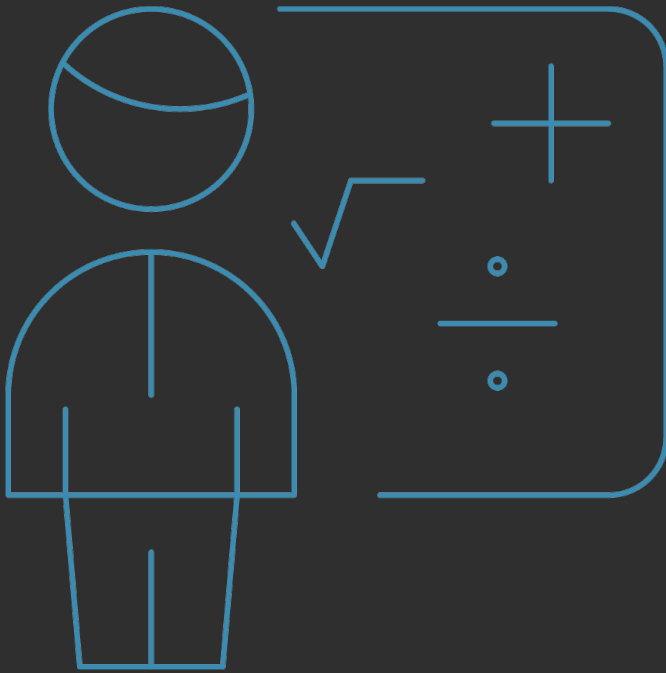
New Arrangement

Some transfers (impermissible)

Benefit Accrual

- DC – Relievable Contributions
- CB – Increase in amount available
- DB – Increase in benefit

DB Accrual and loss of protection



Actual v prospective

Start of year £10,000 per annum = £200,000 LTA

End of year £11,000 per annum = £220,000 LTA

$(220 - 200) / 200 = 10\%$ increase

CPI = 5%

DB Transfers – danger on Enhanced/Fixed

DB to DC
allowed as a
transfer

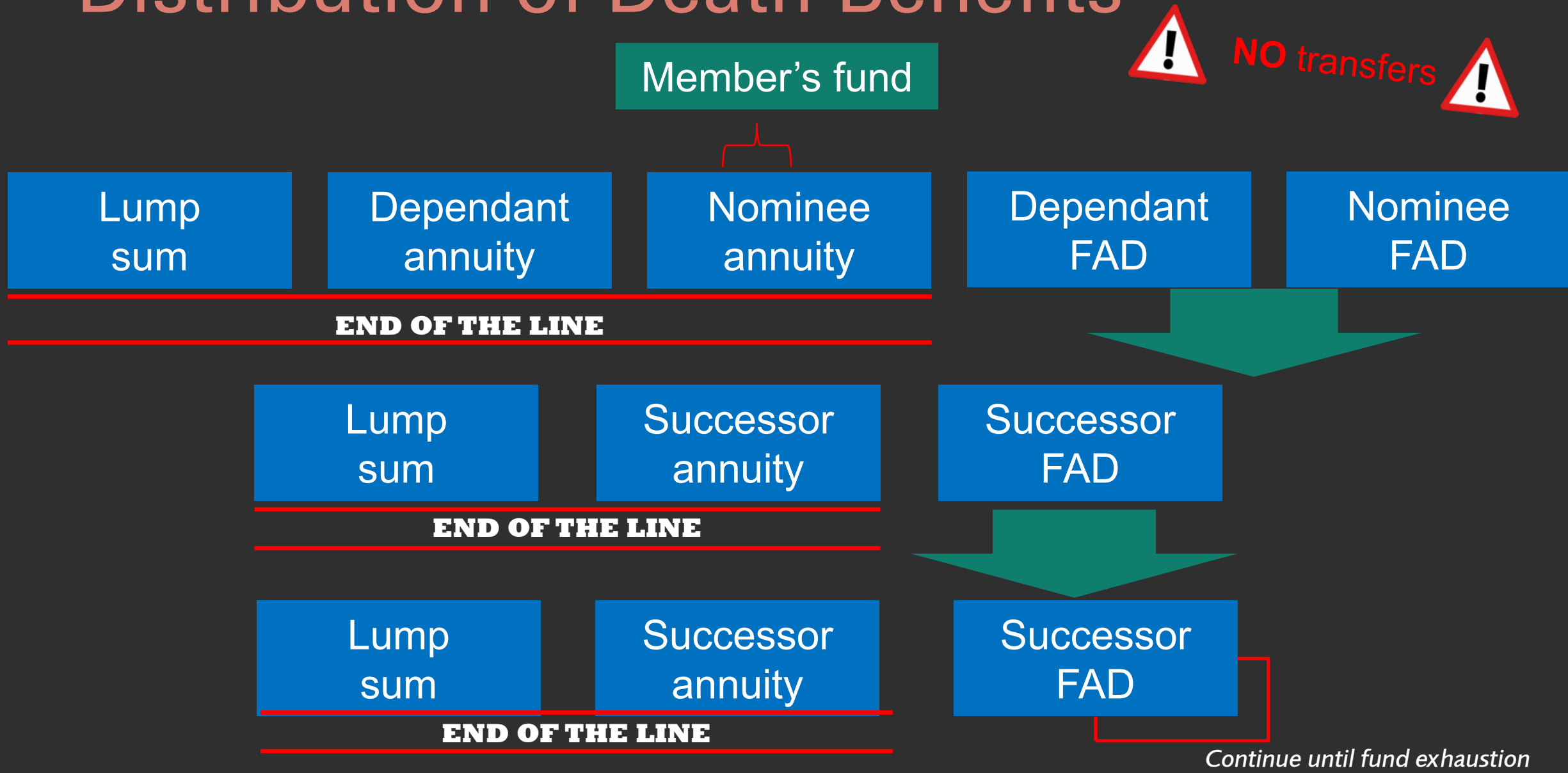
BUT

The CETV
must be the
equivalent of
the benefits
in the
scheme.

Pension Death Benefits

Taxation of Defined Contribution death benefits

Distribution of Death Benefits



Distribution of Death Benefits

No discretion / binding nomination / plan terms



You **CANNOT** Transfer a Death Benefit

Pensions and IHT

The interaction of pensions with the IHT regime

Omission to Act

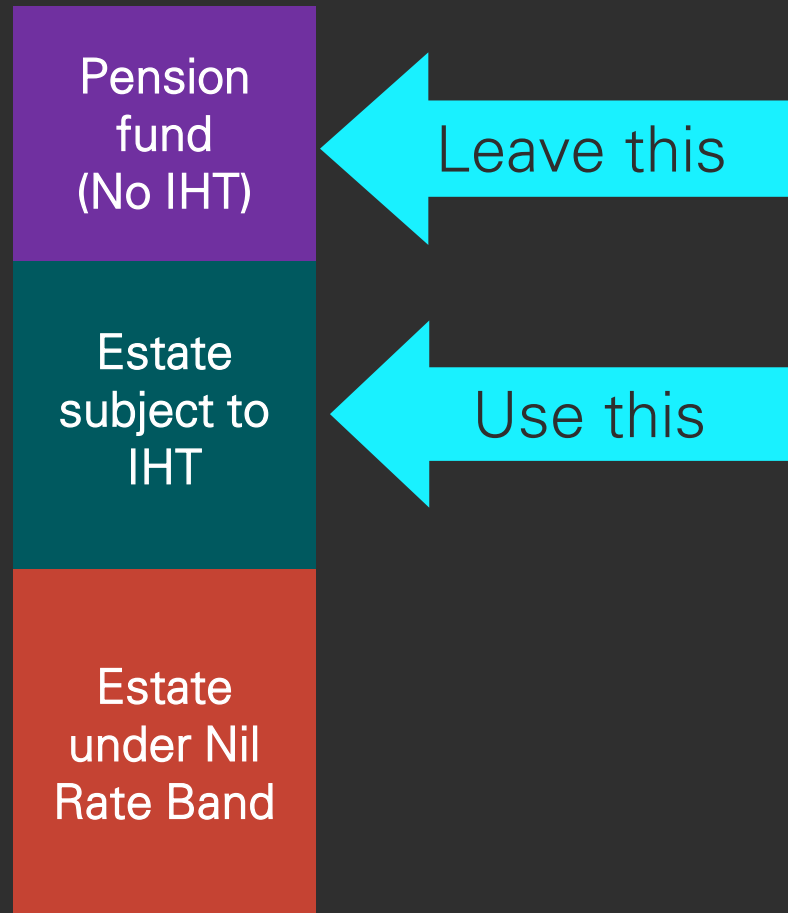
~~IHTA 1984~~

~~s3₍₃₎~~

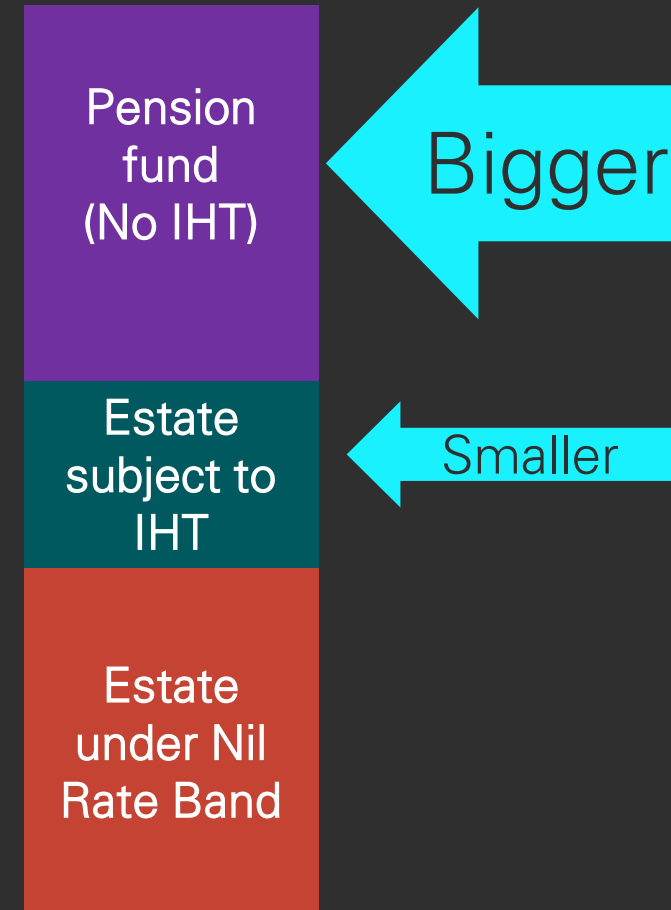


Fryer planning!

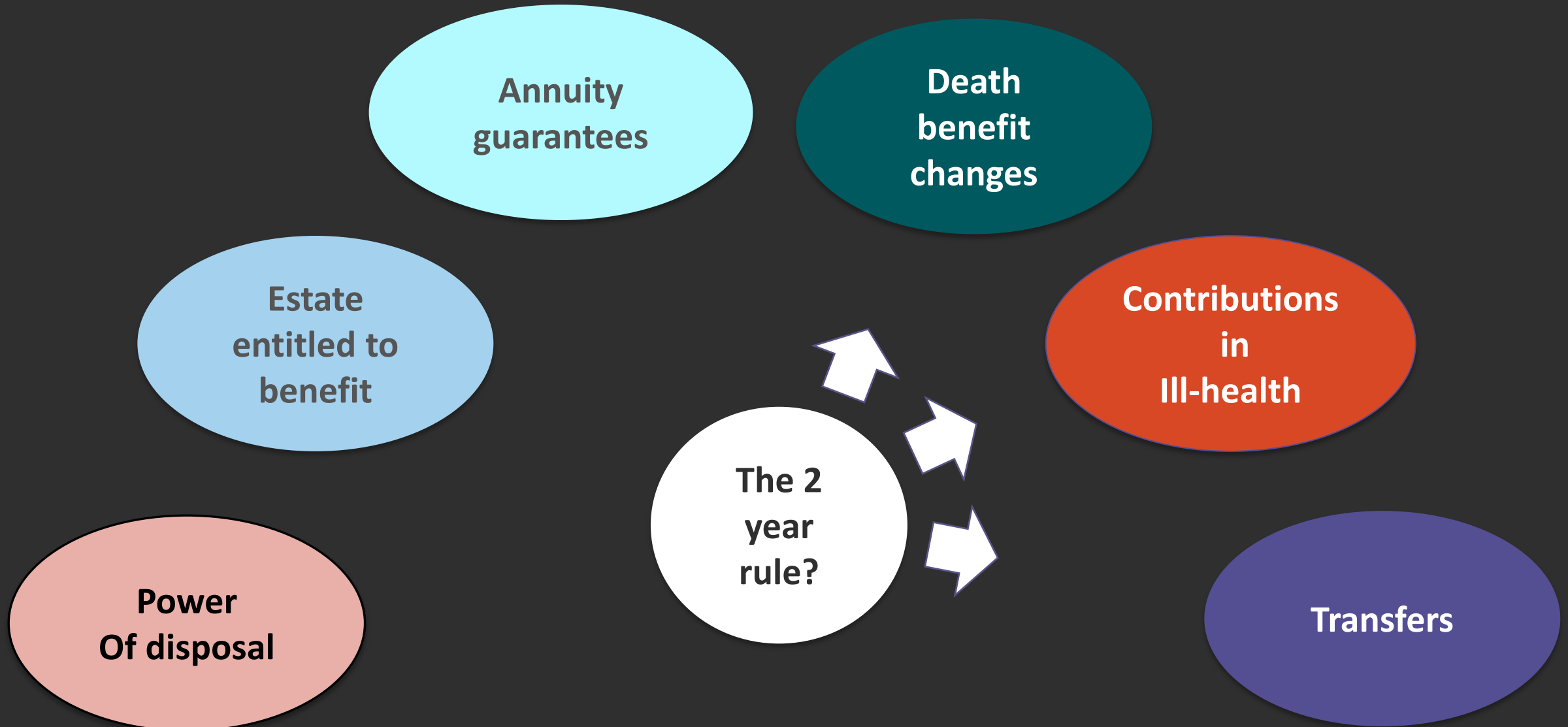
Why
not?



Because?



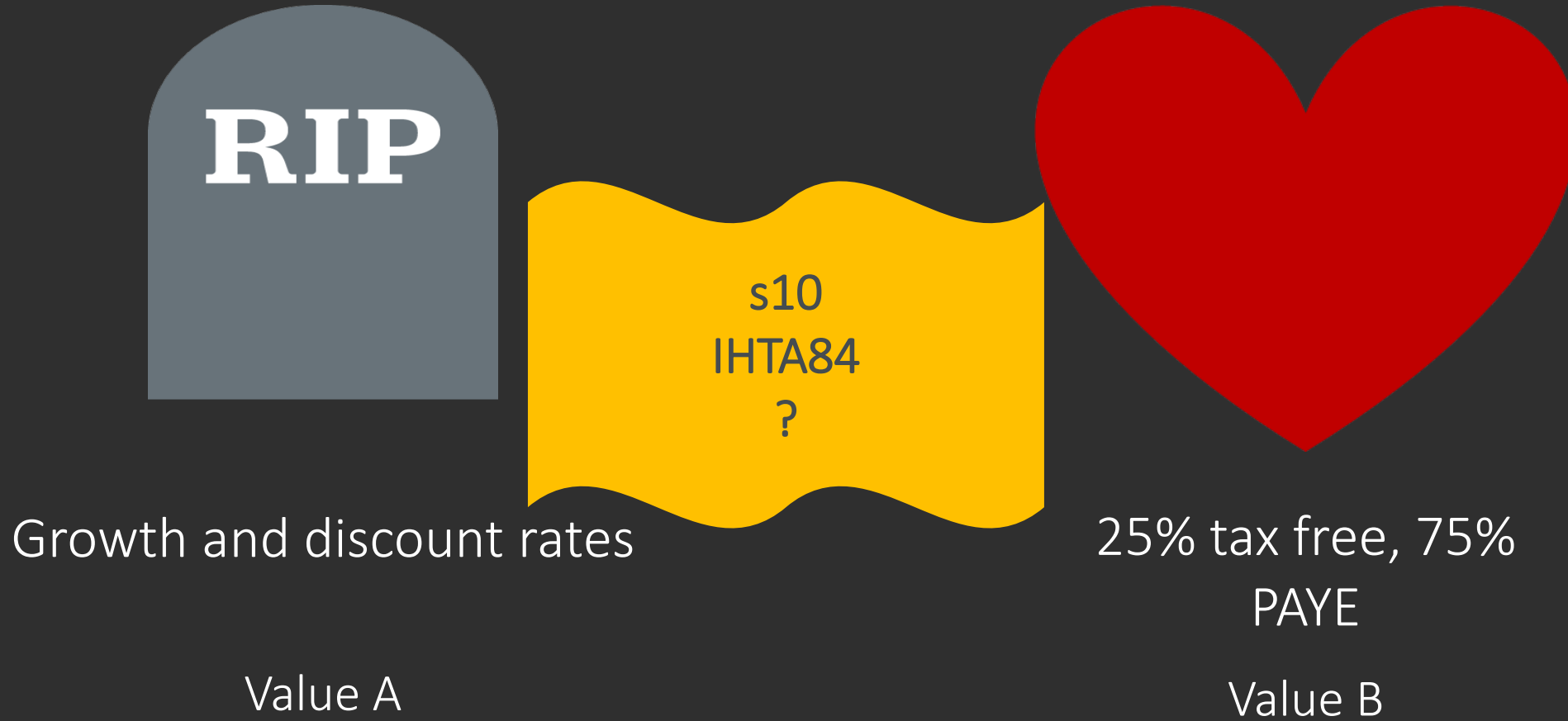
Pensions IHT impact



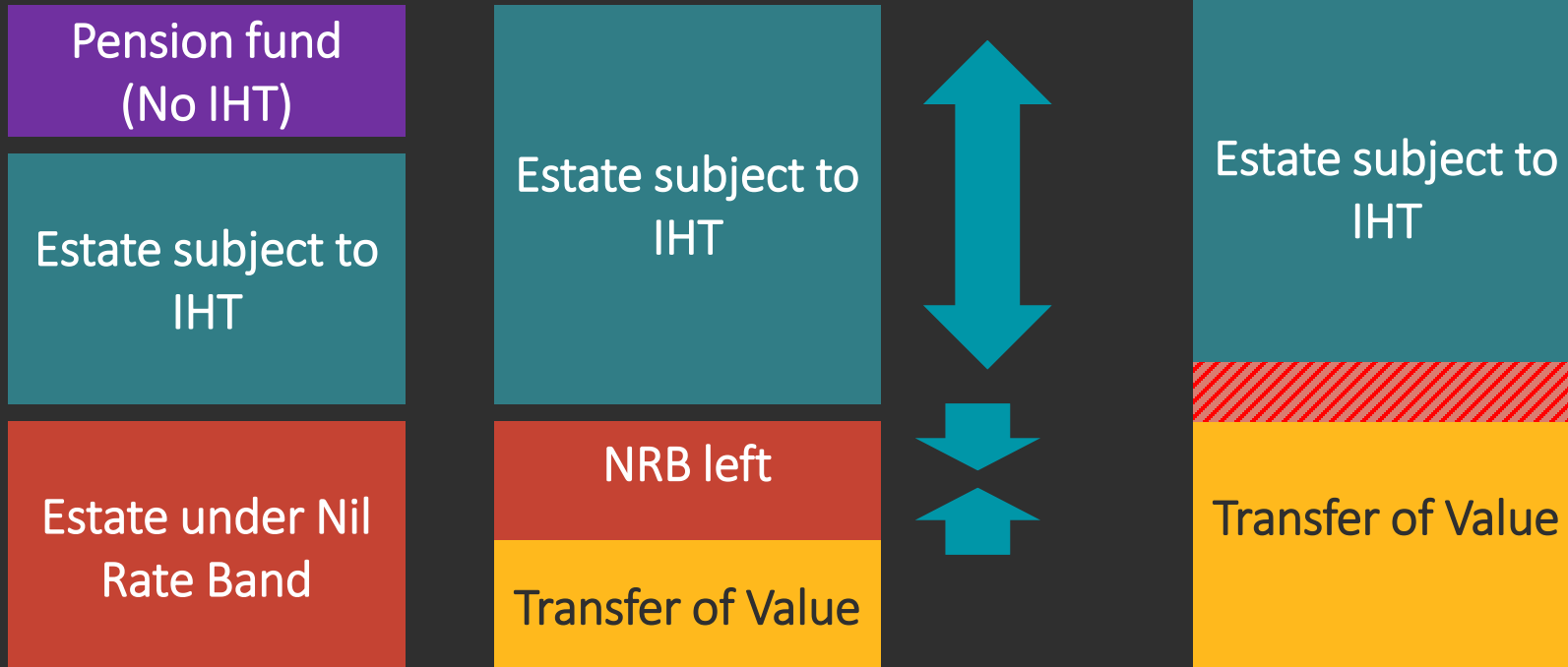
Pensions and IHT

The treatment of pension transfers

The transfer of value



Impact of the transfer



Lifetime Allowance

The planning

So do you just stop at the LTA?

100k salary	Employer 6%	Employee 6% Employer 6%	Employee 6% Employer 12%
Pension Fund	£6,000	£12,000	£18,000
Lump sum post 55% tax	£2,700	£5,400	£8,100
Net cost 40% taxpayer	£0	£3,600	£3,600

So do you just stop at the LTA?

- 60k salary
- DB 1/60th
- 10% contribution

Pension accrued	$60,000/60 = \text{£}1,000$	Deduction (20:1)	$\text{£}5,000/20 = \text{£}250$
LTA used	$\text{£}20,000$	Pension after LTA charge	$\text{£}1,000 - \text{£}250 = \text{£}750$
LTA charge 25%	$\text{£}5,000$	Net cost	$\text{£}6,000 - 40\% = \text{£}3,600$

Or is it £308,678?

- How to get more PCLS than you bargained for....
- LTA and Fund = £1,073,100
- Max PCLS = 25% of fund, capped at 25% of LTA (usually)
- Ergo max PCLS = £268,275

Year	Fund	Income Taken	3.5% Growth	LTA (increases 2% from 2026)	Tax Free	Cumulative LTA
1	£1,073,100	£53,655	£1,055,126	£1,073,100	£13,414	5%
2	£1,055,126	£53,655	£1,036,522	£1,073,100	£13,414	10%
3	£1,035,411	£53,655	£1,016,117	£1,073,100	£13,414	15%
4	£1,013,874	£53,655	£993,827	£1,073,100	£13,414	20%
5	£990,428	£54,728	£968,449	£1,094,562	£13,682	25%
6	£964,982	£55,823	£940,980	£1,116,453	£13,956	30%
7	£937,444	£56,939	£911,323	£1,138,782	£14,235	35%
8	£907,715	£58,078	£879,374	£1,161,558	£14,519	40%
9	£875,695	£59,239	£845,031	£1,184,789	£14,810	45%
10	£841,279	£60,424	£808,185	£1,208,485	£15,106	50%
11	£804,357	£61,633	£768,720	£1,232,655	£15,408	55%
12	£764,815	£62,865	£726,518	£1,257,291	£15,716	60%
13	£722,649	£64,119	£682,519	£1,282,395	£16,031	65%
14	£677,760	£65,396	£636,823	£1,307,969	£16,351	70%
15	£630,057	£66,695	£589,428	£1,334,028	£16,678	75%
16	£579,542	£68,016	£540,312	£1,360,582	£17,012	80%
17	£526,226	£69,358	£489,474	£1,387,640	£17,352	85%
18	£470,109	£70,721	£436,931	£1,415,200	£17,699	90%
19	£411,190	£72,113	£382,718	£1,443,261	£18,053	95%
20	£338,960	£73,657	£274,589	£1,473,136	£18,414	100%

£40,403*

More

* 25% of total income taken

Case study

pension Wealthy

Tom:

Well into retirement at age 65

Lots of disposable income due to his very good DB pension

£150,000 in unvested pension growing at 3%

No lifetime allowance issues

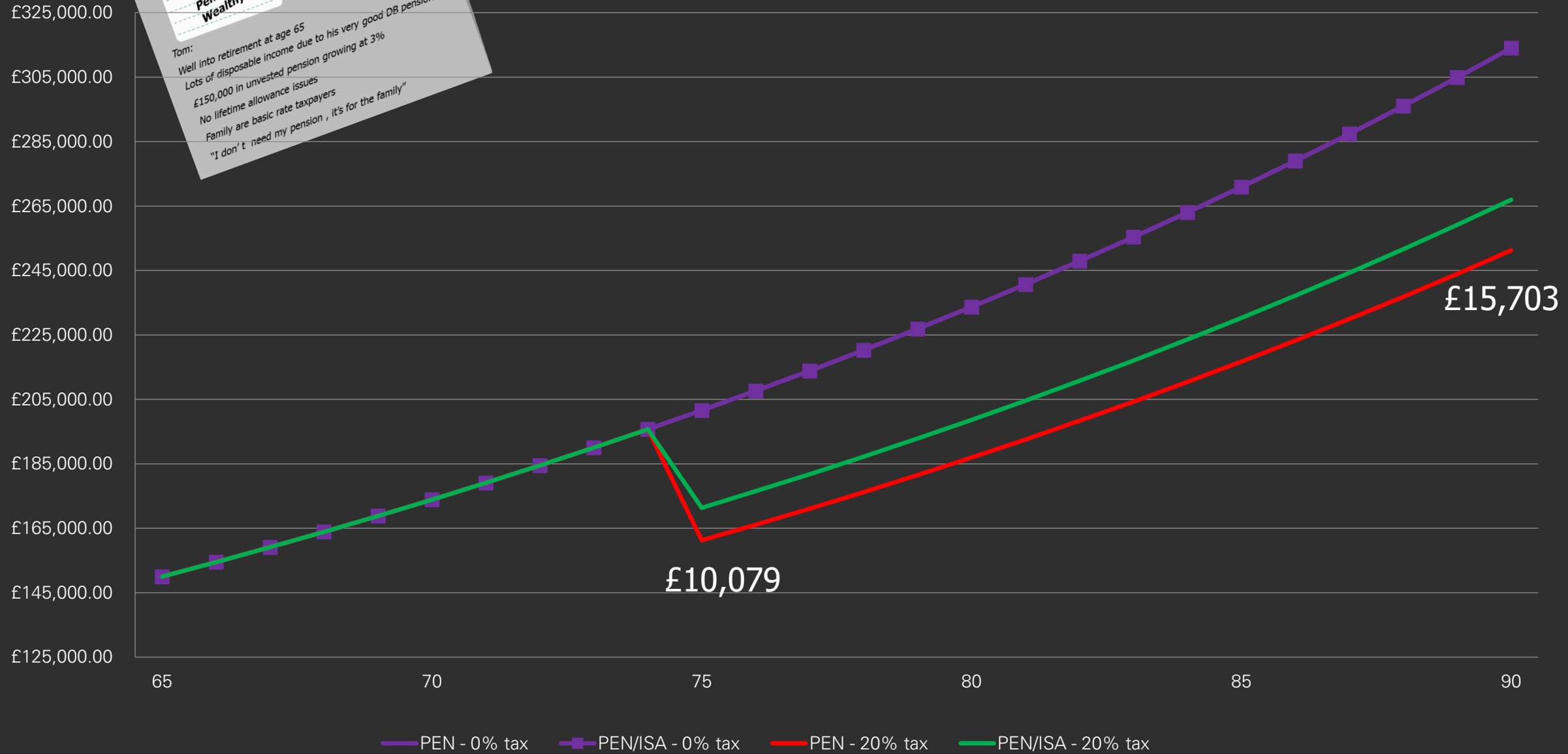
Family are basic rate taxpayers

"I don't need my pension, it's for the family"

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Lots of disposable income due to his very good DB pension
£150,000 in unvested pension growing at 3%
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Family are basic rate taxpayers
"I don't need my pension, it's for the family"



The six steps

Pension Tax happiness?



What do they get overall?

What do they do if they stop?

What'll they get if they stop?

What will they actually get?


What's the cost to get there?

Where will they be?



Learning Objectives - recap

By the end of this seminar you will be able to;

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