

Changes to the Lifetime Allowance

What is the life time allowance?

The lifetime allowance is the amount of savings you can take from your pension schemes without facing a tax charge. The lifetime allowance reduced to £1 million from the 6th of April 2016 and if you take more than £1 million from your combined pension savings, and you have not previously applied to protect a higher level of lifetime allowance, you may face a tax charge.

How much is the Lifetime allowance tax charge?

The lifetime allowance tax charge is:

- 55% of any amount you take from your pension savings as a lump sum above the lifetime allowance.
- 25% of any amount you take from your pension savings as pension income above the lifetime allowance. This is in addition to any income tax that you may need to pay.

Your Pension Savings

- **Are they already protected?**
- **Do you know the combined values?**

HMRC introduced the lifetime allowance back in 2006 and introduced changes in 2012, 2014 and in 2016 where they were reduced.

When planning for retirement, people had made a retirement plan structure based on the higher lifetime allowance every time the HMRC made these reductions and therefore are able to protect their pension savings plan by applying to HMRC Pensions Department – these people should have received a certificate to confirm their lifetime allowance protection. You may however be subject to the lifetime allowance change should you lose this protection.

The Lifetime allowance applies to the value of your combined UK registered Pension Scheme and also some overseas scheme.

What do I need to do to protect my pension savings?

If you wish to find out more information on this, you can contact Carlton James who can point you in the right direction. You can also contact your appointed IFA shown under the 'who to contact section' in your scheme report.

HMRC have now introduced two new protections for the Lifetime allowance following any reductions in a financial year. These will be known as fixed protection and individual protection and they are available following the April 2016 changes. You can also apply for these protections direct by using a new on-line self-service system from July 2016.

Annual Allowance and the Annual Allowance Tax Charge

What is the annual allowance?

The annual allowance is a limit to the amount of contributions that can be paid to pension schemes and the total amount of benefits that you can build up in your combined pension schemes each year. It's based on your earnings for the year and is currently capped at £40,000 since the 6th of April 2014.

Your annual allowance may be reduced if you have taken benefits from a pension scheme or if you have total income in excess of £110,000 (based on all income subject to income tax less certain allowances but including certain employer pension contributions). If you need more information, please contact your appointed IFA.