



# Guide to Lifetime Allowance

## Reduction in Lifetime Allowance - Your clients need to be prepared

The reduction in the Lifetime Allowance from £1.25 million to £1 million in April 2016 is likely to catch out thousands of pension savers, and could potentially cost them thousands in tax. "Be prepared" is the motto because with a bit of forethought and planning the tax charges may be averted, or at least reduced.

The key is identifying the clients who are going to be affected. £1 million might sound a lot, but high earners with a reasonable final salary scheme, and maybe a few personal pensions might want to take a closer look.

The Lifetime Allowance is the maximum that someone can have in their pension "pot" without having to pay a Lifetime Allowance Charge. For final salary schemes it is calculated by multiplying the pension at retirement by 20, and adding on any cash lump sum. A pension of £40,000pa, with a lump sum of £200,000 would therefore have a value for Lifetime Allowance purposes of £1 million. For money purchase schemes it is the value of the fund at crystallisation.

People with pensions funds that are likely to exceed £1million will be able to apply for some protection. They can choose either Individual Protection 2016, or Fixed Protection 2016. Individual protection will give them a personal Lifetime Allowance limit based on the actual value of their pension funds on 5th April 2016, up to a maximum of £1.25m. They can still make contributions or accrue benefits, but excess pension over their individual limit will be subject to the LTA charge. Fixed Protection will give them a limit of £1.25 million, but they must stop all contributions or accrual before April 5th 2016. A single contribution, or day of accrual will mean fixed protection is lost. Applications for both forms of protection will need to be made to HMRC on line from July. Anyone wanting to take benefits before July will need to make an interim application.

Falling foul of the Lifetime Allowance limits could be an expensive mistake. Pension pots without the benefit of protection will be taxed at 55% on the excess over the lifetime allowance, where the excess is taken as a lump sum.

### Advice

If you or any of your clients have pension funds that might exceed the £1 million mark or have the potential to do so, we strongly recommend that advice is obtained from pension specialists who understand the technical issues involved and can help to ensure that action is taken to minimise any lifetime allowance charge. We have experts available to guide you and ensure they are properly prepared.

Please call us now on **01273 921990** and ask for either **Karen or Helen**