

April 2020

The Lifetime Allowance (LTA)

Essentially, the Lifetime Allowance is assessed at each point you access your retirement benefits (also upon your death or should you reach age 75 without taking your benefits or transfer your benefits to a Qualifying Recognised Overseas Pension Scheme).

The standard LTA is currently £1,073,100 (2020/21) and is due to increase every April in line with the Consumer Price Index (CPI).

If the value of your benefits at the point you are assessed exceeds your available LTA, you will become liable to a tax charge on the value of your benefits in excess of your available LTA.

The amount of the LTA tax charge depends on how the excess benefits are taken. If the excess benefits are taken in the form of a lump sum payment they are subject to tax at 55%. If the excess benefits are drawn as pension income, they are initially taxed up front at 25%. However, as pension income is taxable, the resulting income will then be taxed at your marginal rate of income tax (this means that essentially the overall tax charge remains equivalent to 55% for a 40% rate tax payer in retirement).

How is the LTA valued?

Each time access your pension benefits, the value of benefits taken needs to be deducted from the amount of LTA that you have remaining available to you.

The valuation of your available LTA is complicated and depends upon whether or not you had any pension benefits already in payment as at 06 April 2006.

To determine the value of any benefits being taken now:

- the value of any defined benefits put into payment is calculated as 20 times the amount of annual pension put into payment, plus the cash value of any lump sum taken at retirement.
- the value of any defined contribution benefits is simply the value of your investment fund at the point you receive the benefits.

Lifetime Allowance Protections

The LTA was introduced on 06 April 2006 and some individuals with significant pension savings at that date may have been able to protect the value of their benefits earned at that date by applying to HMRC for a form of protection (Primary Protection or Enhanced Protection).

You will know if this applies to you and you should have provided a copy of your protection certificate to the [Pensions Team](#) in order that they are aware of the protection you have in place.

The LTA has been reduced on a number of occasions since its highest level in 2011/12 and individuals may have taken the opportunity at the point at which these reductions applied to protect the value of their pension savings at one of these dates. If you have registered with HMRC for a form of Fixed Protection or Individual Protection at one of these dates, please ensure that you have provided evidence of your protection filed with HMRC to the [Pensions Team](#) in order that they are aware of the protection you have in place.

Anybody who has a form of protection in place will be able to build up pension savings to the value of their individually protected LTA or the prevailing standard LTA at the point of assessment, should this be greater.

The latest reduction to the LTA was effective 06 April 2016 and two forms of LTA protection have been made available by HMRC. The latest protections are known as fixed protection 2016 (FP2016) and individual protection 2016 (IP2016).

Fixed Protection 2016 (FP2016)

In order to be eligible for Fixed Protection 2016 you must have stopped contributions or accruing further pension entitlement with effect from 06 April 2016.

Individual Protection 2016 (IP2016)

If the total value of all your pension savings was valued at more than £1m as at 05 April 2016, you may apply for a protected LTA equal to the value of your total pension savings at that date (subject to an overall maximum of £1.25m).

This can be achieved by filing with HMRC for IP2016

Unlike Fixed Protection it does not matter if you have continued to build up further pension benefits from 06 April 2016.

Note: If you have an earlier form of protection in place, you may not be able to apply for IP2016.

Further information on applying for Protection is available from the [HMRC website](#).