



STIRLING HOUSE A-DAY PREPARATION

From 6th April 2006, the total value of all your pension benefits will be tested against a new Lifetime Allowance. The allowance has been introduced to limit the tax efficiency of pensions savings.

Lifetime Allowance: Key Facts

- The Lifetime Allowance will be set for each tax year. It will initially be £1.5 million for the 2006/2007 tax year, increasing to £1.8 million by 2010/11 as illustrated in the table below. Thereafter, it is expected that the lifetime allowance will increase each tax year, and that the relevant limits will be announced at five-year intervals.

TAX YEAR	LIFETIME ALLOWANCE
2006/07	£1.5 million
2007/08	£1.6 million
2008/09	£1.65 million
2009/10	£1.75 million
2010/11	£1.8 million

- If the value of your benefits exceeds the Lifetime Allowance, you may be subject to a Lifetime Allowance charge or the excess amount, at any date on which a benefit crystallisation event occurs. The actual amount of tax you would have to pay would depend on how you choose to take the excess benefits. If you decide to take the excess as a cash lump sum, a 55% tax charge will apply. Alternatively, if you decide to take the excess as a taxable income, a 25% tax charge would be applied. Each income payment would also be subject to income tax at your marginal rate.
- For higher rate taxpayers, this means that an effective rate of 55% will apply to excess benefits taken as income.
- You could be entitled to an enhanced Lifetime Allowance, which would mean your personal lifetime allowance would be increased above the standard Lifetime Allowance. In such circumstances, a tax charge will not apply unless benefits exceed the enhanced Lifetime Allowance. An enhanced Lifetime Allowance could apply in the following scenarios:
 - Your scheme has received transfer from a recognised overseas pension scheme;
 - You have not always been a *relevant UX individual*;
 - You received a pensions credit from your former spouses pension scheme into your own pension scheme, before 6th April 2006.
 - Where a pension credit is granted to you from a former spouses pension already in payment, if your former spouses pension came into payment after 6th April 2006.
 - When primary protection applies. (See: Transitional Protection Section).
- If enhanced protection applies then normally no Lifetime Allowance charge will apply to your pension benefits regardless of their value, provided that you do not make any further contributions to a pension scheme on or after 6th April 2006.



Lifetime Allowance: Questions & Answers

Q: What is a benefit crystallisation event and when does it occur?

A: A benefit crystallisation event will normally occur when your benefits are paid from your pension scheme(s). An event can also occur when you reach age 75. When an event occurs, the aggregate of all your pension benefits is tested against either the standard or enhanced lifetime allowance. For this purpose, pension benefits include those in payment and those held in defined benefits schemes, for which an equivalent monetary value will be calculated.

There are normally 8 occasions when a benefit crystallisation event would take place. These are:

1. The designation of money purchase arrangement assets to provide an unsecured pension;
2. An individual becoming entitled to a scheme pension;
3. An increase in a scheme pension above the maximum level set at the date the pension started;
4. An individual becoming entitled to a lifetime annuity purchased under a money purchase arrangement;
5. An individual reaching the age of 75 with uncrystallised scheme pension and lump sum benefits;
6. An individual becoming entitled to a lump sum
7. A lump sum death benefit being paid in respect of an individual, from either a defined benefits scheme, or from the uncrystallised funds of a money purchase arrangement;
8. A transfer to a qualifying recognised overseas pension scheme.

Q: If the value of all my pension benefits exceeds the Lifetime Allowance, and I am subject to a lifetime allowance charge, how would this be paid?

A: You and your scheme administrator are jointly liable to pay any Lifetime Allowance charge. While there is no specific guidance as to how the payment would be made, it is expected that the scheme administrator would meet the tax charge in full by making a deduction from your pension benefits.

LIFETIME ALLOWANCE: CASE STUDY

John is planning to reduce his working hours from 35 to 15 hours per week for the next 5 years, retiring fully on his 65th birthday on 7th April 2010. John has 2 pension schemes. He takes benefits from one scheme that has a fund value of £750,000 on 7th April 2006, when the Lifetime Allowance is £1.5 million. By taking this pension benefit, John has used up 50% of his Lifetime Allowance. When he retires on 7th April 2010, and takes his remaining pension benefits from his other pension scheme, as long as his fund value is less than, or equal to, £900,000 (i.e. 50% of the lifetime allowance of £1.8 million for 2010/11), there will be no Lifetime Allowance charge.

However, if we assume John's second scheme is worth £1 million when he takes his pension benefits on 7th April 2010, then £100,000 will be subject to a Lifetime Allowance charge.

John could take £45,000 as cash, with the balance of £55,000 being used to pay the tax charge. On the other hand, he may decide to use £75,000 to buy an annuity or provide income withdrawals, with the balance of £25,000 paying the tax charge. In this case, the income John receives will be subject to income tax at his marginal rate.

Important Information

Please note that the information provided in this document is based on Stirling House Financial Services' understanding of existing and proposed legislation and HMRC practice, all of which may be subject to change in the future. The information is based on the assumption that tax legislation is not changed.