

## Lifetime Allowance Factsheet

**Please note: the Government announced in March 2023 that no Lifetime Allowance tax charge will apply for the 2023/24 tax year, and instead income tax would be applicable. The Lifetime Allowance will then be abolished by future legislation (expected to take effect from 6 April 2024). Further details are awaited.**

### What is the Lifetime Allowance?

The Lifetime Allowance is a limit on tax free pension saving.

The total value of your private and workplace pensions (but not state pensions) which you can save without paying tax is limited. Your pension is tested against the Lifetime Allowance limit when you retire. If you exceed the limit, you will need to pay tax.

Tax year	Lifetime Allowance
2010/11	£1,800,000
2011/12	£1,800,000
2012/13	£1,500,000
2013/14	£1,500,000
2014/15	£1,250,000
2015/16	£1,250,000
2016/17	£1,000,000
2017/18	£1,000,000
2018/19	£1,030,000
2019/20	£1,050,000
2020/21 onwards	£1,073,100

### How do I know if this will affect me?

For Lifetime Allowance purposes, your pension is valued as follows:

- **defined benefit** pensions are valued using a 20:1 factor, i.e. times your annual pension amount by 20. However, if you drew pension benefits before 6 April 2006 the factor becomes 25:1 and therefore could significantly affect the amount of your Lifetime Allowance used.

- 
- **defined contribution** pensions (such as FuturePlanner), are valued as the amount of your accumulated fund.

For example, a member of the FuturePlanner would calculate their benefits as follows:

Pension source	Value for Lifetime Allowance purposes
FuturePlanner fund value of £100,000	£100,000
Defined benefit from previous employment of £10,000 pa	£200,000 (£10,000 x 20)
Other pensions?	?
<b>Total value</b>	<b>£300,000</b>

If the value of your total pension benefits when you retire is less than the Lifetime Allowance in force at the time you retire, you will not be affected by the Lifetime Allowance and do not need to take any action.

#### **If I am affected by the Lifetime Allowance, what does it mean for me?**

Benefits above the Lifetime Allowance will be taxed when you retire as follows:

- if you take the extra benefit as pension a tax charge of 25% of the pension's capital value is payable, and when the pension is paid your marginal rate of tax will also be applied;
- if you take the extra benefit as a lump sum, this will be taxed at 55% at the time it is paid.

#### **Protection**

If the value of your benefits is above the current Lifetime Allowance (£1,073,100) some transitional protections are available. You may be able to:

- Retain the previous higher Lifetime Allowance (£1,500,000) by applying for Fixed Protection 2014 and opting out of future pension provision (applications by 5 April 2014).
- Retain a Lifetime Allowance equal to the value of your pension rights on 5 April 2014 (up to an overall maximum of £1,500,000) by applying for Individual Protection 2014. Your pension rights must have been worth over £1,250,000 on 5 April 2014. You will not lose this protection by making further savings, but any amount in excess of the protected amount will be subject to a Lifetime Allowance tax charge (applications by 5 April 2017).
- Retain the previous higher Lifetime Allowance (£1,250,000) by applying for Fixed Protection 2016 and opting out of future pension provision.
- Retain the Lifetime Allowance equal to the value of your pension rights on 5 April 2016 (up to an overall maximum of £1,250,000) by applying for Individual Protection 2016. Your pension rights must have been worth over £1,000,000 on 5 April 2016. You will not lose this protection by

making further savings, but any amount in excess of the protected amount will be subject to a Lifetime Allowance tax charge.

There is no deadline for applying for Fixed Protection 2016 or Individual Protection 2016, however you need to apply before you take your pension.

If you have elected for other forms of protection in the past (when the Lifetime Allowance was first introduced in 2006 or was last reduced in 2012) these protections will continue to apply to you.

**You are responsible for assessing whether you are affected by the Lifetime Allowance and making your own provisions to protect your allowance.**

### **Finding out more**

You can find more details on the HM Revenue & Customs website at <http://www.hmrc.gov.uk/pensionschemes/understanding-la.htm>.

If you do not already use a financial adviser, [www.unbiased.co.uk](http://www.unbiased.co.uk) can give you details of an Independent Financial Adviser (IFA) in your area. Before you contact an IFA, you should read the guide to financial advice which you can find along with other useful information at: [www.moneyhelper.org.uk](http://www.moneyhelper.org.uk) or telephone 0300 500 5000 (call rates may vary).

### **Disclaimer**

*Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.*