

## **Important - Changes to the LifeTime Allowance available for Pensions**

Last year, the Chancellor announced that the standard pensions lifetime allowance (LTA), which is the total value of pension savings that can be accumulated without a tax charge, will be reduced again from 6 April 2016.

George Osborne has regularly reduced the LTA in recent years, as you can see from the table below, and from 6th April 2016 the LTA will be lowered once again from £1.25 million to £1 million.

### **Year Lifetime Allowance (£m)**

2011/12 - £1.8M

2012/13 - £1.5M

2013/14 - £1.5M

2014/15 - £1.25M

2015/16 - £1.25M

### **2016/17 - £1M**

Any excess over that limit will be taxed at 25% (if used to increase pension) or 55% (if taken as a lump sum) when the member starts to take their pension or benefits. It is expected that this will generate tax of approximately £1.92 billion by 2019/20. The only piece of good news in this announcement was confirmation that the LTA is due to be indexed in line with the Consumer Price Index from April 2018.

Transitional protection (called Fixed Protection) will be introduced, as before, for those who have been saving with the current threshold in mind, whereby you will be able to fix your LTA at the previous level. However, in these instances, you are no longer allowed to pay or receive pension contributions.

Individuals who will be directly affected by this include those who have undrawn pension funds in UK registered pension schemes, where the aggregate lifetime savings exceed £1 million in value as at 6 April 2016. It will also affect some individuals who are already drawing pension benefits but who may have future benefits that need to be tested against the lifetime allowance (eg individuals under age 75 who are in drawdown).

We are also concerned about individuals who are still continuing to save into a Pension and have funds that are well below the £1M at present, but may well exceed that level with growth and further contributions. Pension contributions are an excellent way to save, especially if they are being matched by an Employer. The contributions themselves are being uplifted by Tax Relief AND the fund grows free of all Taxation.

However, the problem that people have concerns whether they are going to be affected by the lifetime Allowance when they finally draw benefits or even what level it will be at when they retire, conscious of how often it has been changed historically.

This continued erosion of the lifetime allowance is unwelcome news for taxpayers who have built up pension savings with the earlier limits in mind. The total cuts amount to over 44% from the height of £1.8M, so those with relatively modest wealth will be drawn into the lifetime allowance charging regime. The new transitional protections should help to limit the impact of the allowance reduction, but individuals will need to check whether they should cease saving in pensions from 6 April 2016 if lifetime allowance charges are to be avoided.

If you wish to discuss this matter in more detail, please do contact us and we will be happy to discuss these changes accordingly.