

FACT SHEET

THE LIFETIME ALLOWANCE

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Definitions

What is the lifetime allowance?

The lifetime allowance is the maximum value of pension benefits you can access without incurring a charge. It is a way of limiting the overall value of the pension tax advantages you can benefit from.

What is the lifetime allowance charge?

The lifetime allowance charge is the charge which applies to any of your pension benefits in excess of the lifetime allowance.

What is a Benefit Crystallisation Event (BCE)?

Your pension benefits are tested against the lifetime allowance when certain actions or events take place. These are called Benefit Crystallisation Events, or BCEs.

Rules

How much is the lifetime allowance?

The standard lifetime allowance is £1,073,100 for the 2020/21 tax year. However, there are several forms of lifetime allowance protection which may give an individual a higher lifetime allowance. Please see our separate lifetime allowance protection fact sheets for further information.

How does the lifetime allowance work?

Each time you have a BCE, the value of the benefits being crystallised is tested against your remaining lifetime allowance. The amount of lifetime allowance you use at each event, and therefore the amount you have left for future events, is expressed as a percentage. This makes it easier to account for changes in the lifetime allowance if you have BCEs in different tax years.

When do BCEs occur?

The most common BCEs occur when:

- You access your pension benefits
- You turn age 75
- You die before age 75 with benefits which haven't yet been tested.

There are also a couple of more unusual BCEs, such as transferring your pension to an overseas pension scheme.

What happens when I run out of lifetime allowance?

If you have a BCE which takes you over the lifetime allowance, or have a BCE when you have no lifetime allowance remaining, there are two possible options.

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If you choose to take those excess benefits as a lump sum, this is called a 'lifetime allowance excess lump sum' and incurs a lifetime allowance charge of 55%. The remaining 45% is not subject to income tax.

If you choose to keep the excess benefits in a pension environment (for example by going into drawdown or purchasing an annuity), this will incur a 25% lifetime allowance charge. If you later receive income payments from those funds, they will be subject to income tax as normal.

If you have funds above the lifetime allowance which are tested on your 75th birthday, the 25% charge applies automatically.

You should also be aware that once you have used up your lifetime allowance, you can no longer take tax free cash (also known as PCLS). You will also no longer be able to access your pension benefits via an uncrystallised funds pension lump sum (UFPLS).

Who completes the lifetime allowance test and pays the charge?

There are different processes for BCEs which take place during your lifetime and ones which occur on your death.

For BCEs which take place during your lifetime, your pension provider will complete the test against the lifetime allowance. The provider will also ask you for enough information about your previous BCEs to work out whether you have exceeded the lifetime allowance. If you have, the provider will calculate the lifetime allowance charge and pay this to HMRC directly before processing the remaining pension benefits. Whether or not you exceed the lifetime allowance, your provider will tell you how much of the lifetime allowance was used by the BCE. You'll then have this information in case another one of your pension providers needs it for another BCE.

For BCEs after you have died, your provider will tell your personal representatives how much of the lifetime allowance is used. However, it is then the responsibility of your personal representatives to work out whether you have

exceeded the lifetime allowance and, if necessary, report this to HMRC. HMRC will then contact the beneficiaries who received the death benefits from your pension(s) to request their share of the lifetime allowance charge.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55.

Contact Details

If you'd like to speak to us about anything on this fact sheet, please contact us on:

T 01473 296 950

We may record and monitor calls. Call charges will vary.

E enquiries@curtisbanks.co.uk

Please remember not to send any personal, financial or banking information via email as it is not a secure method of communication.