

FACT SHEET

LIFETIME ALLOWANCE ENHANCEMENT FACTORS

APPROVED FOR CLIENT USE | APRIL 2023



The lifetime allowance protection rules are very complicated. We recommend that you speak to an adviser if you are affected. We have a separate fact sheet about the normal lifetime allowance rules which you may wish to read before this one.

Definitions

What is a lifetime allowance enhancement factor?

The lifetime allowance is a way of limiting the overall tax advantages your pensions can benefit from. Normally, all of your pension benefits are tested against the lifetime allowance. However there are circumstances in which it would be unfair to test benefits against the lifetime allowance: normally when the benefits have been built up in such a way that they have not benefited from UK pension tax advantages, or have already been tested.

A lifetime allowance enhancement factor is a way of protecting such benefits from the effects of the lifetime allowance.

Rules

What types of lifetime allowance enhancement factors are there?

You may be able to apply for a lifetime allowance enhancement factor if:

- You built up some of your pension benefits while you were living abroad and not receiving UK tax relief on your contributions

- Some of your pension benefits have been transferred in from an overseas pension on which you did not receive UK tax relief on your contributions
- Some of your pension benefits are from a pension credit (i.e. you received them from an ex-spouse's pension following your divorce) and the funds had already been tested against your ex-spouse's lifetime allowance
- Some of your pension benefits are from a pension credit which was acquired before 6 April 2006.

For each type, there are some specific criteria which need to be met, which are beyond the scope of this fact sheet. You can find more information by searching "lifetime allowance enhancement factors" (including the quotation marks) on www.gov.uk

Can I still apply for a lifetime allowance enhancement factor?

If you received a pension credit before 6 April 2006, you probably would have needed to apply for your protection factor by 5 April 2009. HMRC does have a process for accepting late applications if there was a 'reasonable excuse' for the delay, but the examples they give include things such as postal errors or illnesses which may be unlikely to still apply.

Curtis Banks Group plc (registered number 07934492) and Curtis Banks Limited (registered number 06758825) are companies registered in England & Wales with their registered addresses at 3 Temple Quay, Bristol BS1 6DZ. Tel: 0117 910 7910 Fax: 0117 929 2514. Curtis Banks Limited is authorised and regulated by the Financial Conduct Authority (number 492502). Curtis Banks Pensions is a trading name of Suffolk Life Pensions Limited. Suffolk Life Pensions Limited is a company registered in England & Wales (registered number 1180742) and is authorised and regulated by the Financial Conduct Authority (number 116298). Suffolk Life Annuities Limited is a company registered in England & Wales (registered number 1011674) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (number 110468). The registered address of both companies is 153 Princes Street, Ipswich, Suffolk IP1 1QJ. Tel: 0370 414 7000 Fax: 0370 414 8000. Call charges will vary. We may record and monitor calls. If you're contacting us by email, please remember not to send any personal, financial or banking information because email is not a secure method of communication. SL164.202304 April 2023

CONTINUED

However, you should contact HMRC or speak to an adviser if you are in this position.

You can still apply for the other enhancement factors as long as you have one of the types of benefits described and meet the eligibility criteria. Applications must normally be made no later than 31 January five years after the tax year in which the event took place. For example, if you were building up benefits in an overseas scheme and this ended in February 2019, you would have until 31 January 2025 to apply.

HMRC has two forms to apply for lifetime allowance enhancement factors: APSS 201 for pension credits and APSS 202 for funds transferred from overseas or built up while you were overseas.

Who is eligible to apply for a lifetime allowance enhancement factor?

You couldn't apply for an enhancement factor in relation to a pre-2006 pension credit if you applied for primary protection, because the value of the pension credit would already be protected within your primary protection.

For the enhancement factors still available, you can apply as long as you have some of the type of pension benefits described and meet the eligibility criteria.

How does a lifetime allowance enhancement factor work?

Lifetime allowance enhancement factors give individuals a higher lifetime allowance by working as a multiplier of the standard lifetime allowance. When you have an enhancement factor, your total lifetime allowance is:

Standard lifetime allowance + (enhancement factor x standard lifetime allowance)

The factors are based on the value of the funds to be protected (e.g. the value of the pension credit) and calculated as a portion of the standard lifetime allowance. The overall effect is to essentially exempt those funds from the lifetime allowance.

For example, if you received a pension credit worth £536,550 in the 2022/23 tax year, your factor is found by dividing £536,550 by the standard lifetime allowance:
 $£536,550 / £1,073,100 = \text{factor of } 0.5$

Your lifetime allowance for this tax year would then be:
 $£1,073,100 + (£1,073,100 \times 0.5) = £1,609,650$

Does a lifetime allowance enhancement factor increase PCLS (tax free cash) entitlement?

No. An enhancement factor is simply designed to exempt those types of benefits from the lifetime allowance; it has no effect on your PCLS entitlement. This means that you can run out of PCLS entitlement before you run out of lifetime allowance.

Can I lose my lifetime allowance enhancement factor?

Lifetime allowance enhancement factors can only be recalculated or revoked by HMRC if they were initially issued based on incorrect information. Otherwise they cannot be lost or given up.

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, although this is due to increase to 57 in 2028.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA and HMRC regulation. It does not constitute any form of advice.

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.