



This factsheet is designed for the use of the Legal Aid (Scotland) Pension Scheme and can be read in conjunction with the member's guides

Taxation

The UK Government introduced some restrictions to the amount that you can build up towards your pension and benefit from tax relief. Below is a summary of the main changes which form part of the Finance Act 2011.

There are two restrictions that apply to pension savings. These are:

- the amount you can increase your pension value by in any one year - the Annual Allowance (AA) and
- the amount you can have as a total value from all your pension savings in your lifetime - the Lifetime Allowance (LTA).

Lifetime Allowance

The LTA is the total amount you can build up from all your pension savings in your lifetime without incurring a tax charge. The LTA from 6 April 2012 is £1.5 million. From 6 April 2014, the LTA will reduce to £1.25 million.

The effects of LTA changes

Using the LTA of £1.5 million, if you have a pension in excess of £65,217 plus your standard lump sum, you may be affected. If you have a pension (before taking any lump sum) in excess of £75,000, you may be affected.

Using the LTA of £1.25 million, from April 2014, if you have a pension in excess of £54,347 plus your standard lump sum, you may be affected. If you have a pension (before taking any lump sum), in excess of £62,500 you may also be affected.

The above figures only apply to your LA(S)PS main scheme benefits. If you have any other pension savings in addition to these (including money purchase or Additional Voluntary Contributions (AVCs)) you will need to take these into account.

Exceeding the Lifetime Allowance

If you are over the limit, tax on the excess is charged at:

- 55% on your lump sum above your personal tax allowance
- 25% on your pension in excess of your personal LTA.

However, the maximum tax free lump sum is,

- the lower of 25% of the remaining standard LTA (25% of £1.8 million for fixed protection) or
- 25% of the remaining capital value

Benefit Crystallisation

For the purposes of the LTA, your benefits crystallise on the date you had an actual right to receive your benefits. This date is the latter of:

- the payable date or
- the date benefits are actually authorised by SPPA.

The reduction in LTA may result in:

- a bigger percentage of the LTA being used up
- LTA charges being applied to a later benefit crystallisation because there is insufficient LTA remaining
- high earning scheme members may become subject to LTA charges or see those charges increase

Protection

Fixed Protection 2014

From 6 April 2014 the lifetime allowance will be reduced to £1.25 million from the level of £1.5 million in tax year 2013-14. If you have already built up pension savings of more than £1.25 million or have planned to do so in the expectation that the lifetime allowance would not reduce from the 2013-14 level, there is a new form of protection called 'Fixed Protection 2014' (FP2014).

The legislation for FP2014 applies from 6 April 2014 and broadly follows that for the existing fixed protection which was introduced when the lifetime allowance was reduced from £1.8 million to £1.5 million in 2012-13.

If you expect your pension savings to be more than £1.25 million (including taking into account past benefits crystallised) when you come to take any benefits on or after 6 April 2014 you can use FP2014 to help reduce or mitigate the lifetime allowance charge. FP2014 will allow you to crystallise benefits worth up to £1.5 million without paying the lifetime allowance charge, although the ability to accrue future benefits is very limited.

The application form for FP2014 is now available and must be submitted electronically or in paper form to HMRC by 5 April 2014. However, HMRC will not send out any FP2014 certificates before November 2013.

Further information and guidance on how to apply can be found on HMRCs website HM Revenue & Customs: Pension savings and lifetime allowance protection.

Individual Protection 2014

You may be aware of proposals for a further type of protection – Individual Protection 2014 (IP2014). For further information on the proposals for IP2014, you may wish to read the IP2014 consultation document published on 10 June 2013.

Pensions tax relief: individual protection from the Lifetime Allowance charge - Consultations - GOV.UK

You cannot apply for this protection before 6 April 2014. Under current proposals individuals will be able to hold both FP2014 and IP2014. Please see the Lifetime Allowance Checking Tool found on HMRCs website for further information.

Further IP2014 guidance will be published by HMRC in due course.

Recycling

If you are intending to use 30% or more of your lump sum to increase your pension benefits, this could result in HMRC subjecting the whole of your lump sum to an unauthorised payment tax charge of 40% and a further 15% surcharge if the value of unauthorised payments exceeds 25% of your rights in the scheme.

This recycling rule will not affect you if your lump sum does not exceed 1% of your Lifetime Allowance.

Further information

SPPA cannot give you financial or tax advice and if you need this you should speak to a professional adviser. You can read more about the annual allowance and lifetime allowances on HMRCs website at www.hmrc.gov.uk/pensionsschemes

Factsheets are designed to give a brief overview. They do not cover every aspect and further guidance can be obtained from the member and employer guides. Full details are contained in the rules of the scheme.