Individual Protection 2014

Key Facts

The last communication published advised you that the Lifetime Allowance was reducing from £1.5 million to £1.25 million with effect from 6 April 2014. As a result of this change, HM Revenue & Customs (HMRC) introduced a new form of protection to individuals whose pension saving had already reached £1.25 million by 5 April 2014. This form of protection is called Individual Protection 2014 (simply referred to as "Individual Protection").

As a reminder, here are some of the key facts:

- Members who claim Individual Protection will have a protected Lifetime Allowance equal to the value of their pension savings on 5 April 2014, subject to an overall maximum of £1.5 million.
- Members must have pension savings of at least £1.25 million on 5 April 2014 to apply.
- Pension contributions can continue to be paid. However, the value of any pension savings above the protected Lifetime Allowance will be liable to the Lifetime Allowance charge.
- Members who want to claim Individual Protection must apply to HMRC no later than 5 April 2017.
- It is possible to apply for Individual Protection if you already have Fixed Protection 2012, Fixed Protection 2014 or Enhanced Protection.
- It is not possible to apply for Individual Protection if you already have Primary Protection.

We said we would provide further information once the Government had published guidance with regard to Individual Protection. This communication provides an overview of some of the key questions however for further information please visit www.hmrc.gov.uk/pensionschemes/pension-savings-la.htm.

A Few Reminders

What is the Lifetime Allowance?

The Lifetime Allowance is a limit on the value of benefits from your pension schemes, whether lump sums or retirement income, that can be paid out without triggering an extra tax charge.

If when you come to retire (or "crystallise your pension savings") and the value of your benefits is more than the Lifetime Allowance you will have to pay a tax charge on the excess.

How do I know if I am near the Lifetime Allowance?

You should consider the value of all your personal and company pensions, however you do not need to take any State Pension into account. The percentage of Lifetime Allowance used is dependent on the capital value of your pension benefits.

There are different ways to calculate the capital value of your pension benefits depending on the source. Broadly, the rules are as follows for any benefits which you have built up but which are not yet in payment:

I. Defined benefit (or final salary) benefits are given a capital value by multiplying the annual pension by 20;
II. The value of defined contribution (or money purchase) benefits is the total fund value;

Any benefits (pensions or lump sums) already paid or in payment will normally count towards the Lifetime Allowance too. The rules for valuing such benefits are complex – if relevant to you, please refer to HMRC's guidance, speak to your Scheme's administrator or take independent financial advice.

What happens if I exceed the Lifetime Allowance?

If you exceed the Lifetime Allowance you can:

- Take the excess as a lump sum before age 75, less a 55% Lifetime Allowance charge, provided you have the Company and Trustee consent; or
- Use the excess, less a 25% Lifetime Allowance charge, to provide pension

Remember, pension income is taxable. For example, the combination of 40% income tax and a 25% Lifetime Allowance charge could be broadly equivalent to a 55% Lifetime Allowance charge.

How can I protect myself against the Lifetime Allowance tax charge?

When the Lifetime Allowance was introduced, and each time it was reduced, it was possible to apply for protection against a potential Lifetime Allowance charge. If you have applied, you will have received a certificate from HMRC. Please note, if you have enhanced or primary protection you will have only one certificate.

What are the various other types of protection?

There are various types of protection which have been made available in the past or are now available to you. HMRC has in the past allowed individuals to claim other forms of protection, such as primary, enhanced and fixed. The deadlines for applying for these forms of protection have now passed.

Individual Protection Q&A

What is Individual Protection?

In broad terms, Individual Protection will be available to you if, as at 5 April 2014, the value of your pension savings exceeds £1.25 million. It will entitle you to a personalised Lifetime Allowance equal to the value of your savings at that date (capped at £1.5 million).

Who can claim Individual Protection?

If you are a member of a registered pension scheme (like the Kingfisher Pension Scheme) and/or a relieved member of a relieved non-UK pension scheme (e.g. a Qualified Recognised Overseas Pension Scheme) you can apply for Individual Protection if:

- on 5 April 2014, your pension savings are valued at more than £1.25 million, and
- you do not have valid Primary Protection on 5 April 2014, and
- your application for Individual Protection is received by HMRC by 5 April 2017 at the latest.

Examples of when Individual Protection may be useful

Individual Protection may be useful for a member who intends to continue contributing to a pension arrangement as it allows them to keep a Lifetime Allowance greater than £1.25 million. This means that the individual will be able to benefit from the higher Lifetime Allowance and if exceeded will pay a Lifetime Allowance charge based on the personalised Lifetime Allowance rather than the Standard Lifetime Allowance (currently £1.25 million).

It may also be useful for someone who missed the previous application process of other forms of pension protection. For example, an individual with pension savings worth £1.4 million at 5 April 2014 will be able to have £1.4 million as their individual Lifetime Allowance through Individual Protection. Or someone with pension rights worth £1.6 million will be able to have £1.5 million as their personalised Lifetime Allowance, helping them to reduce their Lifetime Allowance charge.

What will be my protected Lifetime Allowance under Individual Protection?

If your application for Individual Protection is successful, you will be given a protected Lifetime Allowance equal to the value of your pension savings on 5 April 2014, subject to a maximum of £1.5 million.

What is the maximum tax free lump sum I can take, if I have Individual Protection?

The maximum tax-free lump sum you can take from 6 April 2014 will be 25% of the uncrystallised value of your protected Lifetime Allowance, subject to what the rules of your pension scheme(s) allow.

What are the restrictions on future savings if I have Individual Protection?
There are no restrictions. But any pension savings above your protected personalised Lifetime Allowance will be liable to the Lifetime Allowance charge.

What happens if my pension savings exceed my personalised Lifetime Allowance?
You will be subject to the Lifetime Allowance charge on the excess when you take your benefits.

What happens if the Standard Lifetime Allowance goes above my personalised Lifetime Allowance?
If at some time in the future the level of the Standard Lifetime Allowance is higher than the level of your personalised Lifetime Allowance, your Individual Protection will cease to apply and you will revert to the higher Standard Lifetime Allowance.

How do I apply for Individual Protection? Do I have to complete a particular form?
To apply for Individual Protection you will need to use HMRC's online form to complete the relevant application form. The application form is available on HMRC's website www.hmrc.gov.uk/pensionschemes/ip14online.htm. By applying online you will get a receipt confirming your application immediately. Please note HMRC will not accept printed applications.

You must complete the form in one visit as you cannot save the form and return to it later. You must also ensure you apply for Individual Protection by 5 April 2017.

I want to apply for Individual Protection. How should my pension savings be valued?
How your pension savings are valued will differ depending on what they consist of. There are different methods for valuing the following types of pension savings:

- any pension that you started to receive before 6 April 2006,
- any pension that came into payment after 5 April 2006 but before 6 April 2014 along with certain tax-free lump sums received in the same period,
- pension savings that you have not yet taken from your UK pension scheme, and
- pension savings in certain overseas pension schemes.

When do my savings have to be valued?
You need to obtain the value of your pension savings at 5 April 2014.

How do I obtain a valuation?
You can ask the Kingfisher Group Pensions Department or your other pension scheme providers to give you a value for your pension savings on 5 April 2014 or tell you (if you are not already aware of it) what your annual rate of pension was on that date.

Please note that some scheme administrators may refuse to provide this as they are not obliged to.

I intend to apply for Individual Protection. What would happen if I died before 6 April 2017 and before applying for Individual Protection?
Your personal representatives will have the right to apply in your place.

Can I make a late application after 5 April 2017?
No. Your application form must be received by HMRC by 5 April 2017 at the latest. There is no provision in the legislation allowing HMRC to accept late applications. You must therefore ensure that your application is made in good time.

What should I do if following my divorce my pension rights have become subject to a pension debit?
If your pension rights are subject to a pension debit, your protected Lifetime Allowance may be reduced or cease to apply if your pension rights are reduced to an amount less than the Standard Lifetime Allowance in force when the pension sharing order or provision takes effect.

SAVING FOR YOUR FUTURE

If, at any time after HMRC has issued you with an Individual Protection certificate, and your pension rights become subject to a pension debit, you must inform HMRC about this within 90 days of the day on which your rights became subject to the pension debit. This will be the day on which the pension sharing order or provision takes effect.

To obtain further guidance please refer to the relevant section of HMRC's Individual Protection 2014 guidance or speak to an independent financial adviser.

I have had an Annual Allowance charge and have asked my scheme to operate Scheme Pays. Will this affect the value of my pension savings?

No. Your pension rights will be valued on 5 April 2014. If your scheme reduces your benefits after this date as a result of Scheme Pays your relevant amount will not be adjusted.

REMEMBER

You should still take this announcement into account even if you are not eligible for Individual Protection or decide not to apply. You should still monitor the build-up of your pension savings as against the Lifetime Allowance as you may need to consider appropriate actions in the future so you do not unintentionally breach the Lifetime Allowance.

Remember, you may inadvertently breach the Lifetime Allowance sometime in the future and this could result in you paying a tax charge of up to 55% on any excess above the Lifetime Allowance.

Before making any decision you should also refer to the guidance on the HM Revenue & Customs website at http://www.hmrc.gov.uk/pensionschemes/pension-savings-la.htm for Lifetime Allowance information.

This fact sheet is based on our understanding of current and proposed legislation as at 26 August 2014, which is subject to change. It is a brief summary that cannot cover all relevant terms. Any tax benefits or charges will depend on your circumstances. Some of the options available to you under KPS may require Company and Trustee consent. It is for you to decide whether Individual Protection is right for you and (if so) to make the necessary application to HMRC. If you are at all unsure you should seek independent financial advice.

SAVING FOR YOUR FUTURE