

## Changes to the LifeTime Allowance (LTA) and Annual Allowance (AA)

The Government has announced changes in the LTA and the AA and these have now been incorporated in the draft Finance Bill 2011.

### **LTA**

This will reduce from its present level of £1.8m to £1.5m on 6 April 2012. Anyone who does not already have transitional protection (enhanced or primary) can apply for a new protection called Fixed Protection. This will be available to those who already have more than £1.5m in their pension funds or who expect fund growth to take them over £1.5m. In return for ceasing future benefit accrual they will be able to retain the £1.8m LTA, meaning that they will only be subject to a tax charge if their funds exceed £1.8m when crystallised.

Some of the other regulations which link to the LTA will see that link removed. So trivial pension funds will still be below £18,000 and protected tax free cash will be 120% of the value at A Day.

In practice we would expect clients with significant funds who are planning to crystallise benefits in the first half of 2012 to make sure that they do so on or before 5 April 2012 so that they are measured against the higher LTA of £1.8m. Those wishing to apply for Fixed Protection will have to do so by 5 April 2012 and must cease accrual at that date but someone applying for Fixed Protection in 2011 will be able to continue contributing up to 5 April 2012.

### **AA**

Before 2006 the maximum pension contribution was 40% of the Earnings Cap. The notional Earnings Cap for 2010/11 is £123,600, so the new Annual Allowance of £50,000, effective from 6 April 2011, is very much in line with the pre A Day rules. Only those with retirement annuity plans and earnings of more than about £250,000 could have paid more than £50,000 under those rules.

In addition unused relief can be carried forward for 3 years, giving the possibility of a £200,000 contribution. There is however a restriction which might catch some people out. Subsection 4 of Part 1 of Schedule 1 of the draft bill says that carry forward "(a) does not apply in relation to a tax year preceding the current year unless the individual was a member of a registered pension scheme at some time during that tax year, but (b) subject to that, applies in relation to such a tax year even if the total pension input amount in the case of the individual for that tax year was nil."

I have spoken with HMRC who have confirmed that someone who has never been a member of a scheme cannot carry forward unused relief. They confirmed however that membership of a registered pension scheme includes paid up plans, even if the policy conditions do not permit reinstatement, and also 'rebate only' personal pensions. If an employer has set up a Stakeholder Plan but no contributions have been made in respect of an employee, then the employee is not regarded as a member for the purposes of carry forward.

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