

## Judicial Pension Scheme

### Lifetime Allowance from 2016/17 - Important Changes

#### Key Points

- The Judicial Pension Scheme 2015 is a tax registered scheme
- The 1993 Judicial Pension Scheme is **not** registered for tax (the Lifetime Allowance does not apply)
- All Judicial AVC schemes are registered for tax
- The Lifetime Allowance will reduce from £1.25 million to £1 million in April 2016
- There will be two new types of protection from the reduction in Lifetime Allowance - Fixed Protection 2016 and Individual Protection 2016
- The protections will be available from the HMRC's online service from July 2016

#### Introduction

Any benefits in a tax registered pension scheme above the Lifetime Allowance (LTA) will be subject to a tax charge, known as a "Lifetime Allowance charge", at the point that the benefits are crystallised. The rate of tax charged will depend on whether the excess is taken in pension or lump sum form.

The Chancellor announced in his Summer Budget that the LTA will reduce from £1.25 million to £1 million in April 2016. The Government will provide 'transitional protection' to members who could be impacted by the reduction (as they have done on previous occasions since the LTA was introduced on 6 April 2006).

From 6 April 2016, there will be two further types of protection available:

- Fixed Protection 2016; and
- Individual Protection 2016

The transitional protections are not provided automatically, but require a member to make an application to HMRC to receive the protections. A member is able to apply for both Fixed and Individual Protection 2016.

#### Fixed Protection 2016 (FP16)

Fixed protection will provide a LTA of £1.25million and any member can apply for FP16, whether their benefits exceed £1 million or not, in order for FP16 to be maintained they must not:

- Accrue any pension in a registered scheme after 5 April 2016
- Have any other type of protection (Primary, Enhanced, Fixed Protection 2012 or 2014)

#### Individual Protection 2016 (IP16)

In order to be able to apply for IP16 the value of benefits in registered pension schemes from all sources has to be equal to or in excess of £1 million as at 5 April 2016. IP16 enables a member to accrue further benefits in a defined benefit scheme, such as the Judicial Pension Scheme 2015, without losing the protection.

The protection that IP16 provides is a personal LTA equal to the value of benefits as at 5 April 2016, subject to a maximum cap of £1.25 million. Any benefits above the personal LTA will be subject the LTA charge.

IP16 is only available for members who do not already have Primary Protection or Individual Protection 2014. Those holding Enhanced Protection, Fixed Protection 2012 or Fixed Protection 2014 can apply but must have total pension assets as at 5 April 2016 in excess of £1 million.

#### The valuation of benefits

For the purposes of valuing benefits for protection, the standard HMRC LTA valuation factor for 'un-crystallised' pension benefits is 20 for every £1 of accrued pension plus the value of any automatic lump sums (if any) as at 5 April 2016. The valuation of benefits which are already in payment is more complicated and will depend on when the pension commenced.

#### The LTA Charge

Once the LTA has been exhausted, tax charges are payable for excess benefits as follows:

- 25% tax charge if the benefit is taken as a pension. The pension actually paid is also subject to income tax at the recipient's marginal rate of tax; or

- 55% tax charge if the benefit is taken as a lump sum (with no further tax payable).

### **HMRC Online applications for transitional protection**

Members will be able to apply for these protections using a new HMRC online self service tool, which will be available to members or their authorised representative from July 2016 via the HMRC website.

The legislation providing for the reduction in the LTA to £1 million and the availability of FP16 and IP16 will come into force with effect from 6 April 2016, after the Finance Bill receives Royal Assent. Unfortunately, this will prevent HMRC from processing applications for either FP16 or IP16 in advance of 6 April 2016.

To resolve this issue, HMRC will permit applications for FP16 and IP16 to be made after 6 April 2016 and will provide a protection 'reference number' once a successful application is submitted, a certificate will not be provided.

If a member applies for both types of protection, FP16 will have precedence over IP16. HMRC has indicated that there will no longer be an application deadline for obtaining FP16 and IP16 (unlike Individual Protection 2014).

Members are still able to apply for IP14 (deadline is 5 April 2017) if they have registered pension scheme savings over £1.25m but cannot then apply for IP16.

### **Important Notes**

At the time of the publication of this note, the legislation reducing the LTA to £1 million is not in place and the available methods of protection are not finalised. Therefore the information is based on HMRC announcements received to date and how we expect the legislation to work, based on previous protections. We anticipate that more details will be known before 6 April 2016.

This note is for reference purposes only and does not constitute financial advice. If you think that you might be affected by the LTA changes, we recommend that you take independent financial advice from a registered individual, who can assess if any if applying for protection would be beneficial. You can find a list of independent financial advisers at [www.unbiased.co.uk](http://www.unbiased.co.uk)

If you have any questions on the information contained in this note, please contact us by e-mail at [judicialpensions@justice.gsi.gov.uk](mailto:judicialpensions@justice.gsi.gov.uk)