HM Revenue
& Customs

Pensions lifetime allowance: individual protection 2014

Who is likely to be affected?

Individuals who expect to have UK tax relieved pension savings of more than £1.25 million by April 2014, as well as pension scheme administrators and employers who have scheme members or employees in this position.

General description of the measure

The measure will protect pension savers who think they may be affected by the reduction in the lifetime allowance (LTA) from April 2014. A transitional protection regime, individual protection 2014 (IP14), is being introduced. IP14 will protect any UK tax relieved pension savings that an individual has built up at 5 April 2014 up to an overall limit of £1.5 million.

Policy objective

The Government's objective is a system of pensions tax relief that is fair, affordable and sustainable.

The introduction of IP14 alongside fixed protection 2014 (FP14) is intended to give individuals greater flexibility in how they protect pension savings that they have built up before 6 April 2014 from the lifetime allowance charge.

Background to the measure

At the Autumn Statement 2012, the Government announced that it will reduce the lifetime allowance from £1.5 million to £1.25 million for the 2014-15 tax year onwards. The Government also announced that FP14 will be offered to individuals to prevent retrospective tax charges arising as a result of the reduction in the lifetime allowance and that they would discuss with stakeholders whether to also offer an individual protection regime in addition to this.

Following informal discussions with interested parties, at Budget 2013, the Government announced that an individual protection regime would be offered in addition to FP14.

A consultation document including draft legislation and the Tax Information and Impact Note (TIIN) was published on 10 June 2013, with responses required by 2 September 2013.

This TIIN updates and replaces the TIIN published on 10 June 2013.

A summary of responses and updated draft legislation was published on 10 December 2013.

Detailed proposal

Operative date

IP14 will have effect from tax year 2014-15 onwards.

Current law

The current pensions tax rules for registered pension schemes came into force on 6 April 2006 (A-day) and are set out in Part 4 of the Finance Act (FA) 2004.

Although there are no limits to how much can be saved in registered pension schemes, there is an overall limit known as the lifetime allowance (section 218 of FA 2004), on the total amount of tax relieved pension savings that an individual can have over their lifetime. The standard lifetime allowance will be reduced from £1.5 million to £1.25 million for tax year 2014-15 onwards (section 48 of Finance Act 2013).

Tax relief on any pension benefits taken over the lifetime allowance is recovered by the application of the lifetime allowance tax charge to the excess. The rate of the lifetime allowance charge is 25 per cent if the excess is taken as a pension or 55 per cent if it is taken as a lump sum (sections 214 and 215 of FA 2004).

The lifetime allowance also applies to any savings individuals have built up with UK tax relief where they are a relieved member of a relieved non-UK pension scheme (paragraphs 13 to 19 of Schedule 34 to FA 2004).

To protect individuals with UK tax relieved pension savings of more than £1.25 million or who think they may have savings in excess of £1.25 million by the time they take their pension benefits, a transitional protection regime, FP14, is being introduced (Schedule 22 to Finance Act 2013) . Individuals will need to notify HM Revenue & Customs (HMRC) by 5 April 2014 if they want to rely on fixed protection 2014. Individuals with FP14 will be entitled to a personal lifetime allowance of the greater of £1.5 million and the standard lifetime allowance. To maintain FP14 individuals will need to stop saving into money purchase schemes and savings in defined benefit schemes cannot increase above a specified rate. In effect this requires most individuals with FP14 to become a deferred member of their pension scheme(s).

Proposed revisions

IP14 will be introduced in addition to FP14.

IP14 will be available to any individual with total UK tax relieved pension savings of greater than £1.25 million on 5 April 2014 providing that they don't have primary protection.

Individuals with IP14 will have a personalised LTA of the value of their pension savings on 5 April 2014 subject to an overall limit of £1.5 million. Individuals with IP14 will be able to carry on actively saving in a registered pension scheme, should they so wish, but would be subject to the LTA charge on any excess savings over their personalised LTA when they take their benefits.

Individuals will be able to apply for both FP14 and IP14. Where an individual holds both FP14 and IP14, FP14 will take precedence, but should this be lost the individual will revert to IP14.

Individuals will be able to apply for IP14 from 6 April 2014 and applications must be received by HMRC by 5 April 2017.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>-</td><td>+ 100</td><td>+ 80</td><td>+ 50</td><td>nil</td></tr>
<tr><td colspan="5">These figures were set out in Table 2.1 of Budget 2013 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2013.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">IP14 provides individuals, who have pension savings above £1.25 million, with a more flexible method of protecting pension savings already accrued from any retrospective tax charges.

It is estimated that about 120,000 individuals will have pension savings above £1.25 million in April 2014. Of these, those who don't have primary protection will be eligible to apply for IP14.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">HMRC data does not allow identification of groups sharing protected characteristics within the affected population. However the nature of the change means that those affected are likely to be in higher income groups so are less likely to be from ethnic minority groups, female or disabled. The change will have a greater effect on those nearing retirement than those in other age groups. No other impacts are anticipated in respect of groups sharing other protected characteristics.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">This measure is likely to impose some additional burdens on the pensions industry. These will come from having to check and provide valuations to individuals who want to apply for IP14 and checking certificates and providing information to HMRC where an individual relies on IP14. HMRC anticipates one-off costs across pension schemes of around £4 million.

<table>
<tr><td></td><td>Cost</td><td>Time Period (yrs)</td></tr>
<tr><td colspan="3">Compliance Costs</td></tr>
<tr><td>One-off Costs</td><td>£4m</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Total Costs (PV)</td><td>£4m</td><td>N/A</td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
<tr><td>One-off Benefit</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Average Annual Benefit</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Total Benefit (PV)</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Net Benefit (NPV)</td><td>-£4m</td><td>N/A</td></tr>
<tr><td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td></tr>
<tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr>
<tr><td>£0m</td><td>£0m</td><td>£0m</td></tr>
</table>
</td></tr>
</table>

Operational impact (£m) (HMRC or other)	There will be additional costs for HMRC of £1 million to administer and monitor the new protection regimes and deal with enquiries from customers.
Other impacts	Small and micro business assessment: the impact on small and micro-sized businesses has been considered. This measure introduces a transitional protection regime to protect any UK tax relieved pension savings that an individual has built up at 5 April 2014. It would not be appropriate for the measure to apply differently according to the size of the firm within which the affected workers operate. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups. HMRC will also monitor the volume of applications for IP14.

Further advice

If you have any questions about the policy for this change, please contact Paul Cottis on 03000 564209 or email: pensions.policy@hmrc.gsi.gov.uk.

1 Standard lifetime allowance

Schedule 1 makes provision in relation to the standard lifetime allowance.

SCHEDULES

SCHEDULE 1

Section 1

TRANSITIONAL PROVISION RELATING TO NEW STANDARD LIFETIME ALLOWANCE ETC

PART 1

"INDIVIDUAL PROTECTION 2014"

The protection

1 (1) Sub-paragraph (2) applies on or after 6 April 2014 in the case of an individual—

(a) who, on 5 April 2014, has one or more relevant arrangements (see sub-paragraph (4)),

(b) whose relevant amount is greater than £1,250,000 (see sub-paragraph (5)), and

(c) in relation to whom paragraph 7 of Schedule 36 to FA 2004 (primary protection) does not make provision for a lifetime allowance enhancement factor,

if notice of intention to rely on it is given to an officer of Revenue and Customs.

(2) Part 4 of FA 2004 has effect in relation to the individual as if the standard lifetime allowance were—

(a) if the individual's relevant amount is greater than £1,500,000, the greater of the standard lifetime allowance and £1,500,000, or

(b) otherwise, the greater of the standard lifetime allowance and the individual's relevant amount.

(3) But sub-paragraph (2) does not apply in relation to any benefit crystallisation event occurring at a time when any of the following provisions applies in the case of the individual—

(a) paragraph 12 of Schedule 36 to FA 2004 (enhanced protection);

(b) paragraph 14 of Schedule 18 to FA 2011 (fixed protection 2012);

(c) paragraph 1 of Schedule 22 to FA 2013 (fixed protection 2014).

(4) "Relevant arrangement", in relation to an individual, means an arrangement relating to the individual under—

(a) a registered pension scheme of which the individual is a member, or

(b) a relieved non-UK pension scheme of which the individual is a relieved member.

(5) An individual's "relevant amount" is the sum of amounts A, B, C and D (see paragraphs 2 to 5).

(6) Sub-paragraphs (7) and (8) apply if, at a time ("the relevant time") on or after 6 April 2014, rights of an individual under a relevant arrangement become subject to a pension debit.

(7) For the purpose of applying sub-paragraph (2) in the case of the individual in relation to benefit crystallisation events occurring at or after the relevant time, the individual's relevant amount is reduced (or further reduced) by the following amount—

$$X - (Y \times Z)$$

where—

X is the amount of the pension debit,

Y is 5% of X, and

Z is the number of tax years beginning after 5 April 2014 but ending on or before the date on which the relevant time falls.

(If the formula gives a negative amount, it is to be taken to be nil.)

(8) But if the individual's relevant amount would be reduced (or further reduced) to £1,250,000 or less, sub-paragraph (2) is not to apply at all in the case of the individual in relation to benefit crystallisation events occurring at or after the relevant time.

Amount A (pre-6 April 2006 pensions in payment)

2 (1) To determine amount A—

(a) apply sub-paragraph (2) if a benefit crystallisation event has occurred in relation to the individual during the period comprising the tax year 2006-07 and all subsequent tax years up to (and including) the tax year 2013-14;

(b) otherwise, apply sub-paragraph (6).

(2) If this sub-paragraph is to be applied, amount A is—

$$25 \times ARP \times \frac{1,500,000}{SLT}$$

where—

ARP is (subject to sub-paragraph (3)) an amount equal to—

(a) the annual rate at which any relevant existing pension was payable to the individual at the time immediately before the benefit crystallisation event occurred, or

(b) if more than one relevant existing pension was payable to the individual at that time, the sum of the annual rates at which each of the relevant existing pensions was so payable, and

SLT is an amount equal to what the standard lifetime allowance was at the time the benefit crystallisation event occurred.

(3) Paragraph 20(4) of Schedule 36 to FA 2004 applies for the purposes of the definition of "ARP" in sub-paragraph (2) (and, for this purpose, in paragraph 20(4) any reference to "the time" is to be read as a reference to the time immediately before the benefit crystallisation event occurred).

(4) If the time immediately before the benefit crystallisation event occurred falls before 6 April 2011, in sub-paragraph (3) references to paragraph 20(4) are to be read as references to that provision as it stood at the time immediately before the benefit crystallisation event occurred.

(5) If more than one benefit crystallisation event has occurred, in sub-paragraphs (2) to (4) references to the benefit crystallisation event are to be read as references to the first benefit crystallisation event.

(6) If this sub-paragraph is to be applied, amount A is—

$$25 \times ARP$$

where ARP is (subject to sub-paragraph (7)) an amount equal to—

(a) the annual rate at which any relevant existing pension is payable to the individual at the end of 5 April 2014, or

(b) if more than one relevant existing pension is payable to the individual at the end of 5 April 2014, the sum of the annual rates at which each of the relevant existing pensions is so payable.

(7) Paragraph 20(4) of Schedule 36 to FA 2004 applies for the purposes of the definition of "ARP" in sub-paragraph (6) (and, for this purpose, in paragraph 20(4) any reference to "the time" is to be read as a reference to 5 April 2014).

(8) In this paragraph "relevant existing pension" means (subject to sub-paragraph (9)) a pension, annuity or right—

(a) which was, at the end of 5 April 2006, a "relevant existing pension" as defined by paragraph 10(2) and (3) of Schedule 36 to FA 2004, and

(b) the payment of which the individual had, at the end of 5 April 2006, an actual (rather than a prospective) right to.

(9) If—

(a) before 6 April 2014, there was a recognised transfer of sums or assets representing a relevant existing pension, and

(b) those sums or assets were, after the transfer, applied towards the provision of a scheme pension ("the new scheme pension"),

the new scheme pension is also to be a "relevant existing pension" (including for the purposes of this sub-paragraph).

Amount B (pre-6 April 2014 benefit crystallisation events)

3 (1) To determine amount B—

(a) identify each benefit crystallisation event that has occurred in relation to the individual during the period comprising the tax year 2006-07 and all subsequent tax years up to (and including) the tax year 2013-14,

(b) determine the amount which was crystallised by each of those benefit crystallisation events (applying paragraph 14 of Schedule 34 to FA 2004 if relevant), and

(c) multiply each crystallised amount by the following fraction—

$$\frac{1,500,000}{SLT}$$

where SLT is an amount equal to what the standard lifetime allowance was at the time the benefit crystallisation event in question occurred.

(2) Amount B is the sum of the crystallised amounts determined under sub-paragraph (1)(b) as adjusted under sub-paragraph (1)(c).

Amount C (uncrystallised rights at end of 5 April 2014 under registered pension schemes)

4 Amount C is the total value of the individual's uncrystallised rights at the end of 5 April 2014 under arrangements relating to the individual under registered pension schemes of which the individual is a member as determined in accordance with section 212 of FA 2004.

Amount D (uncrystallised rights at end of 5 April 2014 under relieved non-UK pension schemes)

5 (1) To determine amount D—
   (a) identify each relieved non-UK pension scheme of which the individual is a relieved member at the end of 5 April 2014, and
   (b) in relation to each such scheme—
      (i) assume that a benefit crystallisation event occurs in relation to the individual at the end of 5 April 2014, and
      (ii) in accordance with paragraph 14 of Schedule 34 to FA 2004, determine what the untested portion of the relevant relieved amount would be immediately before the assumed benefit crystallisation event.

(2) Amount D is the sum of the untested portions determined under sub-paragraph (1)(b)(ii).

Interpretation

6 (1) Expressions used in this Part of this Schedule and Part 4 of FA 2004 have the same meaning in this Part as in that Part.

(2) In particular, references to a relieved non-UK pension scheme or a relieved member of such a scheme are to be read in accordance with paragraphs 13(3) and (4) and 18 of Schedule 34 to FA 2004.

PART 2

REGULATIONS

7 (1) The Commissioners for Her Majesty's Revenue and Customs may by regulations amend Part 1 of this Schedule.

(2) Regulations under this paragraph must not increase any person's liability to tax.

(3) Regulations under this paragraph may include provision having effect in relation to a time before the regulations are made; but the time must be no earlier than 6 April 2014.

8 (1) The Commissioners for Her Majesty's Revenue and Customs may by regulations make provision specifying how any notice required to be given to an officer of Revenue and Customs under Part 1 of this Schedule is to be given.

(2) In sub-paragraph (1) references to Part 1 of this Schedule are to that Part as amended from time to time by regulations under paragraph 7.

9 (1) Regulations under paragraph 7 or 8 may include supplementary or incidental provision.

(2) The powers to make regulations under paragraphs 7 and 8 are exercisable by statutory instrument.

(3) A statutory instrument containing regulations under paragraph 7 or 8 is subject to annulment in pursuance of a resolution of the House of Commons.

PART 3

OTHER PROVISION

Amendment of section 219(5A) of FA 2004

10 (1) In section 219 of FA 2004 (availability of individual's lifetime allowance) in subsection (5A) after "effect" insert "where the previous benefit crystallisation event occurred before 6 April 2014".

(2) The amendment made by this paragraph is treated as having come into force on 6 April 2014.

Amendment of section 98 of TMA 1970

11 (1) Column 2 of the Table at the end of section 98 of TMA 1970 (special returns: penalties) is amended as follows.

(2) After the entry for section 228 of TIOPA 2010 insert—

"Regulations under paragraph 16 of Schedule 18 to the Finance Act 2011;".

(3) After the entry for regulations under section 61(5) of FA 2012 insert—

"Regulations under paragraph 3 of Schedule 22 to the Finance Act 2013;

Regulations under paragraph 8 of Schedule 1 to the Finance Act 2014;".

EXPLANATORY NOTE

LIFETIME ALLOWANCE - INDIVIDUAL PROTECTION 2014

SUMMARY

1. Clause X and Schedule Y introduce a new transitional protection regime, individual protection 2014 ('IP14'), for pension savers who are affected by the reduction in the standard lifetime allowance to £1.25 million from 6 April 2014. IP14 entitles individuals who have pension savings on 5 April 2014 of greater than £1.25 million and who do not have primary protection to a lifetime allowance equal to the value of those pension savings, subject to an overall limit of £1.5 million.

DETAILS OF THE SCHEDULE

Part 1

2. Paragraphs 1 to 6 set out who can notify HMRC that they intend to rely on IP14, how their existing pension rights are valued and the level of protected lifetime allowance that they will be entitled to.

3. Paragraph 1(1) provides that individuals can notify HMRC that they intend to rely on IP14 where they have a relevant amount (as defined in paragraph 1(5)) of greater than £1.25 million on 5 April 2014 and they do not have primary protection,

4. Paragraph 1(2) provides that where an individual has IP14 the standard lifetime allowance is replaced by the greater of the individual's relevant amount (subject to an overall limit of £1.5 million) and the standard lifetime allowance.

5. Paragraph 1(3) provides that where an individual who has notified HMRC that they intend to rely on IP14 already has one of three existing LTA protections, fixed protection 2012, fixed protection 2014 or enhanced protection, then as long as one of those more beneficial protections is valid, IP14 does not apply.

6. Paragraph 1(5) defines the relevant amount as the sum of amounts A to D which are defined in paragraphs 2 to 5. This is the value of the individuals pensions in payment plus their savings not yet taken that have benefited from UK tax relief.

7. Paragraphs 1(6) to (8) deal with the position where the pension rights of an individual with IP14 are subject to a pension debit on or after 6 April 2014. In such a case, the individual's relevant amount is reduced by the amount of the debit. However the pension debit is reduced by 5 per cent for each complete tax year between 5 April 2014 and the date of the pension debit.

8. Paragraph 2 sets out how to calculate amount A, which is the value of the pensions that the individual was receiving on 6 April 2006 (A-day).

9. Paragraphs 2(2) to (5) apply where a benefit crystallisation event ('BCE') has subsequently occurred in respect of the individual on or before 5 April 2014. In this case Amount A is 25 times the annual rate of the pre A-day pension immediately before the BCE, multiplied by a factor of £1.5 million (the standard lifetime allowance for 2013-14) over the standard lifetime allowance at the date of the BCE. The factor is applied to take account of any change in the standard lifetime allowance since the BCE, so that that percentage of the current standard lifetime allowance used up by the BCE remains constant.

10. Paragraphs 2(6) and (7) apply where no BCE has occurred in respect of the individual since A-day, in which case amount A is 25 times the annual rate of the pension payable on 5 April 2014.

11. Paragraphs 2(8) and (9) contain definitions of expressions used in sub-paragraphs (2) to (7).

12. Paragraph 3 sets out how to calculate amount B, which is the value of any BCEs in respect of the individual occurring on or before 5 April 2014. Amount B is the aggregate of the value of each BCE, multiplied by a factor of £1.5 million (the standard lifetime allowance for 2013-14) over the standard lifetime allowance at the date of the BCE.

13. Paragraph 4 sets out how to calculate amount C, which is the value of any uncrystallised rights in respect of the individual on 5 April 2014. Amount C is calculated in accordance with the method set out in section 212 of Finance Act 2004 for calculating the value of uncrystallised rights in respect of surchargeable unauthorised member payments under section 210 of Finance Act 2004.

14. Paragraph 5 sets out how to calculate amount D, which is the value of any uncrystallised rights in respect of the individual on 5 April 2014 under relieved non-UK pension schemes. Where an individual is a relieved member of a relieved non-UK pension scheme, to calculate amount D it is assumed that there is a BCE in respect of those rights at that date and the amount that would have been crystallised in accordance with paragraph 14 of Schedule 36 to Finance Act 2004 is calculated.

15. Paragraph 6 provides that expressions used in Schedule 1 have the same meaning as in Part 4 of Finance Act 2004.

Part 2

16. Paragraphs 7 to 9 provide powers for HMRC to make regulations to amend Part 1 and to specify how individuals must give notice of their intention to rely on IP14.

Part 3

17. Part 3 makes consequential amendments to existing legislation as a result of the reduction in the lifetime allowance.

18. Paragraph 10 amends section 219(5A) of Finance Act 2004 so that it only applies to individuals with primary protection where the individual has at least one BCE both before 6 April 2014 and on or after 6 April 2014.

19. Paragraph 11 amends section 98 of the Taxes Management Act 1970 to bring regulations relating to applications for fixed protection 2012, fixed protection 2014 and IP14 within the penalty provisions in section 98.

BACKGROUND NOTE

20. Individuals can save as much as they like in a registered pension scheme subject to overall limits on the amount of tax relief their pension savings can benefit from. These limits are the lifetime and annual allowances. The lifetime allowance is the maximum amount of pension and/or lump sum that an individual can take from their pension schemes that benefit from UK tax relief. The lifetime allowance also applies to any UK tax relieved savings the individual has in a relieved non-UK pension scheme.

21. When an individual becomes entitled to their pension benefits, these benefits are tested to see if they exceed the individual's lifetime allowance. Where they exceed this, the excess is subject to the lifetime allowance charge. The rate of the lifetime allowance charge will depend on how the individual takes their benefits. Any amount over the lifetime allowance taken as a lump sum is taxable at 55 per cent whilst any amount taken as a pension is taxable at 25 per cent.

22. The Government announced on 5 December 2012 that legislation will be introduced to reduce the standard lifetime allowance to £1.25 million for the 2014-15 tax year onwards. They also announced that fixed protection 2014 ('FP14') would be introduced to protect individuals from potentially retrospective tax charges arising from the reduction and that they would consult on whether an individual protection regime should supplement FP14, to offer a more flexible framework. At Budget 2013 the Government confirmed that it would offer individual protection 2014 and that it would consult on the detail of this over the summer. That consultation took place from 10 June to 2 September. A summary of responses to the consultation was published on 10 December 2013.

23. If you have any questions about this change, or comments on the legislation, please contact Paul Cottis on 03000 564209 (email: pensions.policy@hmrc.gsi.gov.uk).

STATUTORY INSTRUMENTS

2014 No.

INCOME TAX

The Registered Pension Schemes and Relieved Non-UK Pension Schemes (Lifetime Allowance Transitional Protection) (Individual Protection 2014 Notification) Regulations 2014

Made - - - -	***
Laid before the House of Commons	***
Coming into force - -	***

The Commissioners for Her Majesty's Revenue and Customs make the following Regulations in exercise of the powers conferred by section 251(1) of the Finance Act 2004(**a**) and now exercisable by them(**b**), and paragraphs 8 and 9(1) of Schedule [XX] to the Finance Act 2014(**c**).

Citation, commencement and interpretation

1. These Regulations may be cited as the Registered Pension Schemes and Relieved Non-UK Pension Schemes (Lifetime Allowance Transitional Protection) (Individual Protection 2014 Notification) Regulations 2014 and come into force on [XX].

2. In these Regulations—

"amounts A, B, C and D" means the amounts calculated in accordance with paragraphs 2 to 5 of Schedule [XX] to the Finance Act 2014 (individual protection 2014);

"HMRC" means Her Majesty's Revenue and Customs;

"individual's relevant amount" means the amount calculated in accordance with paragraph 1(5) of Schedule [XX] to the Finance Act 2014;

"net amount" means the amount of the pension debit(**d**) after the deduction of the amount (if any) calculated in accordance with paragraph 1(7) of Schedule [XX] to the Finance Act 2014;

"paragraph 1" means paragraph 1 of Schedule [XX] to the Finance Act 2014;

"paragraph 1 notice" means a notice of intention to rely upon paragraph 1; and

"tribunal" means the First-tier Tribunal or, where determined in accordance with the Tribunal Procedure (First-tier Tribunal) (Tax Chamber) Rules 2009(**e**), the Upper Tribunal.

(**a**) 2004 c. 12. Subsection (2) of section 251 sets out the matters referred to in subsection (1)(a) in respect of which regulations may require persons to provide information of a prescribed description and to preserve documents for a prescribed period. Subsection (6) states that "prescribed" means prescribed by regulations.

(**b**) The functions of the Commissioners of Inland Revenue were transferred to the Commissioners for Her Majesty's Revenue and Customs by section 5(1) of the Commissioners for Revenue and Customs Act 2005 (c. 11). Section 50(1) of that Act provides that insofar as it is appropriate in consequence of section 5, a reference in an enactment, however expressed, to the Commissioners of Inland Revenue is to be treated as a reference to the Commissioners for Her Majesty's Revenue and Customs.

(**c**) 2014 c. [XX].

(**d**) Pension debit is defined in section 279(1) of the Finance Act 2004.

(**e**) S.I. 2009/273 (L. 1).

Reliance on paragraph 1

3.—(1) Subject to paragraph (2), an individual may rely on paragraph 1 if—

(a) the individual has given a paragraph 1 notice to HMRC, and

(b) HMRC have accepted that notice by issuing a certificate to the individual.

(2) An individual may not rely on paragraph 1 if—

(a) HMRC have refused to accept a paragraph 1 notice in accordance with regulation 6, or

(b) HMRC have revoked the certificate in accordance with regulation 11.

The paragraph 1 notice

4.—(1) A paragraph 1 notice must include the following information—

(a) the title, full name, address (including post code, if applicable) and date of birth of the individual giving the paragraph 1 notice,

(b) the national insurance number of the individual or, where the individual does not qualify for a national insurance number, the reasons for this,

(c) the individual's relevant amount,

(d) amounts A, B, C and D for the individual,

(e) the date, the amount and (if relevant) the net amount of any pension debit to which a relevant arrangement in relation to the individual became subject on or after 6th April 2014, and

(f) a declaration that paragraph 7 of Schedule 36 to the Finance Act 2004 (primary protection) does not make provision for a lifetime allowance enhancement factor in the case of the individual.

(2) A paragraph 1 notice must—

(a) be in a form prescribed by HMRC,

(b) contain a declaration that the information provided in the notice is true and complete to the best of the knowledge and belief of the person completing the form, and

(c) be received by HMRC on or before 5th April 2017.

Issue of certificate by HMRC

5.—(1) If HMRC accept the paragraph 1 notice, they must issue a certificate to the individual.

(2) The certificate must have a unique reference number.

Refusal by HMRC to accept notice

6.—(1) HMRC may refuse to accept the paragraph 1 notice if it does not satisfy the requirements in regulation 4.

(2) If HMRC refuse to accept the paragraph 1 notice the individual may require that HMRC provide reasons for the refusal.

Appeal against refusal to accept notice

7.—(1) The individual may appeal against a refusal by HMRC to accept the paragraph 1 notice.

(2) The notice of appeal must be given to HMRC before the end of the period of 30 days beginning with the day on which the refusal to accept the paragraph 1 notice was given.

(3) Where an appeal under this regulation is notified to the tribunal, the tribunal must determine whether HMRC were entitled to take the view that the notice did not satisfy the requirements in regulation 4.

(4) If the tribunal allows the appeal, the tribunal may direct HMRC to accept the paragraph 1 notice and issue a certificate to the individual.

Incorrect information given in, or in connection with, the paragraph 1 notice

8. If the individual realises that any information given in the paragraph 1 notice or given to HMRC in connection with that notice was incorrect or has become incorrect, the individual must provide HMRC with the correct information without undue delay.

Requirement to notify HMRC of a pension debit

9. Where HMRC have issued a certificate the individual must—

(a) inform HMRC of the date, the amount and (if relevant) the net amount of any pension debit to which their rights under a relevant arrangement become subject, and

(b) provide that information before the end of the period of 90 days beginning with the day on which the individual's rights under the arrangement become subject to the pension debit.

Replacement of a certificate by HMRC

10.—(1) HMRC may issue a certificate, replacing the previous certificate, if they have reason to believe that—

(a) information given in, or in connection with, the paragraph 1 notice was incorrect or has become incorrect, or

(b) the individual's rights under the arrangement have become subject to a pension debit.

(2) A certificate issued in accordance with regulation 10(1) must have a unique reference number.

Revocation of a certificate by HMRC

11. HMRC may revoke a certificate if they—

(a) have reason to believe that any of the conditions in paragraph 1(1) of Schedule [XX] to the Finance Act 2014 have not been met,

(b) have reason to believe that by virtue of a pension debit paragraph 1(2) of that Schedule has ceased to apply in the case of the individual as a consequence of paragraph 1(8) of that Schedule, or

(c) have given a taxpayer notice to the individual under Part 1 of Schedule 36 to the Finance Act 2008(**a**) (power to obtain information and documents from taxpayer) in connection with paragraph 1 and the individual does not reply to that notice within the time specified in the notice.

Appeal against replacement or revocation of a certificate

12.—(1) The individual may require HMRC to provide reasons for replacing or revoking the certificate.

(2) Paragraphs (1) and (2) of regulation 7 apply to a decision to replace or revoke the certificate as they apply to a refusal to accept the paragraph 1 notice.

(3) Where an appeal under this regulation is notified to the tribunal, the tribunal must determine whether HMRC replaced or revoked the certificate in accordance with regulations 10(1) or 11.

(4) If the tribunal allows the appeal, the tribunal may direct HMRC to issue a certificate to the individual.

(**a**) 2008 c. 9; taxpayer notice is defined in paragraph 1(2) of Schedule 36.

Preservation of documents

13.—(1) Where HMRC have issued a certificate the individual must preserve—

(a) the certificate until no further benefit crystallisation event(**a**) can occur in relation to the individual; and

(b) all documents relating to the calculation of the individual's relevant amount and amounts A, B, C and D for a period of six years beginning with the day on which the individual gives notification to HMRC.

(2) The requirement to preserve the certificate ceases where the certificate has been revoked.

Personal representatives

14. If an individual dies, anything under these Regulations which could have been done by the individual may be done by the individual's personal representatives.

[Name]
[Name]
Date Two of the Commissioners for Her Majesty's Revenue and Customs

EXPLANATORY NOTE

(This note is not part of the Regulations)

Sections 214 to 226 of the Finance Act 2004 (c. 12) provide for the application of the lifetime allowance charge. Section 48 of the Finance Act 2013 (c. 29) has reduced the level of the lifetime allowance, which applies to determine whether the lifetime allowance charge is applicable, to £1,250,000 from tax year 2014-15 onwards.

Part 1 of Schedule [XX] to the Finance Act 2014 (c. [XX]) introduces transitional provisions which provide protection from the lifetime allowance charge ("individual protection 2014") for those who may already have built up pension savings in excess of £1,250,000 in the expectation that the lifetime allowance would remain at £1,500,000. These Regulations provide how individuals may give notice to Her Majesty's Revenue and Customs ("HMRC") that they intend to rely on individual protection 2014 and make provision for supplementary and incidental matters.

Regulations 3 and 4 make provision about giving that notice. If HMRC accept a notice they must issue a certificate (regulation 5). Regulation 6 sets out the circumstances in which HMRC may refuse to accept a notice and regulation 7 sets out how the individual may appeal against that decision.

Regulations 8 and 9 require that individuals inform HMRC if incorrect information has been given in a notice, or their rights under a relevant arrangement become subject to a pension debit.

Regulations 10 and 11 set out the circumstances in which, following acceptance of a notice, HMRC may replace or revoke a certificate. Regulation 12 sets out how the individual may appeal against replacement or revocation.

Regulation 13 deals with the preservation of documents. Regulation 14 enables personal representatives to act in place of an individual.

A Tax Information and Impact Note was published on 10 June 2013 and updated on 10 December 2013 and is available on the HMRC website at http://www.hmrc.gov.uk/thelibrary/tiins.htm. It remains an accurate summary of the impacts that apply to this instrument.

(**a**) Benefit crystallisation event is defined in section 216 of the Finance Act 2004.

EXPLANATORY MEMORANDUM TO

THE REGISTERED PENSION SCHEMES AND RELIEVED NON-UK PENSION SCHEMES (LIFETIME ALLOWANCE TRANSITIONAL PROTECTION) (INDIVIDUAL PROTECTION 2014 NOTIFICATION) REGULATIONS 2014

2014 No. [XXXX]

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs ("HMRC") and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument sets out how an individual must give notice to HMRC if they intend to rely on individual protection 2014 ("IP14") to reduce or eliminate any potential lifetime allowance charge from April 2014 when the lifetime allowance for UK tax relieved pension savings was reduced from £1.5 million to £1.25 million for tax year 2014-15 onwards. It also sets out what happens if the notice is refused or if the individual no longer meets the conditions for IP14.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 Part 4 of the Finance Act 2004 ("the Act") made provision for the taxation of registered pension schemes. The Act introduced an overall limit on the amount of UK tax relieved pension savings that an individual can make, this is known as the LTA (sections 218 to 226 of the Act). Any pension savings that exceed the LTA when benefits are taken are subject to a charge to income tax known as the LTA charge (section 214 of the Act).

4.2 Section 48 of the Finance Act 2013 amended section 218 of the Act and reduced the lifetime allowance from £1.5 million to £1.25 million for the 2014-15 tax year onwards. Part 1 of Schedule x to the Finance Act 2014 introduced a new transitional protection regime, IP14, for those who think they may be affected by the reduction in the LTA and who had total UK tax relieved pension savings of greater than £1.25m on 5 April 2014. IP14 gives individuals a personalised LTA based on the value of their pension savings on 5 April 2014, subject to an overall limit of £1.5 million.

4.3 Paragraph 8 of Schedule x to the Finance Act 2014 provided the power for HMRC to make Regulations specifying how an individual must give notice to HMRC if they want to rely on IP14. Paragraph 9 states that the Regulations may include supplementary

or incidental provisions. This is the first time that Regulations have been made using the powers in paragraphs 8 and 9 of Schedule x.

4.4 This instrument is also made under section 251 of the Act which allows HMRC to impose specified information requirements on certain prescribed persons.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- What is being done and why

7.1 The Government provides tax relief on pensions savings to encourage individuals to take responsibility for retirement planning and to recognise that pensions are less flexible than other forms of saving. However, the cost of tax relief net of income tax on pensions has almost doubled over the last decade to an annual cost of around £35 billion by 2011-12. Reform to pensions tax relief is an integral part of the Government's deficit reduction package and as part of these reforms the Government has introduced restrictions to the amount of tax-free pension savings that can be made to ensure that pensions tax relief remains fair, affordable and sustainable.

7.2 The level of the standard lifetime allowance reduced from £1.5 million to £1.25 million from the 2014-15 tax year onwards. In recognition that reducing the lifetime allowance created a potential issue for individuals who may have already built up pension pots in the expectation that the lifetime allowance would remain around its previous level of £1.5 million, a transitional protection regime 'fixed protection 2014' was introduced to support individuals who had already made pension savings decisions based on the previous level of the lifetime allowance. Individuals with fixed protection 2014 have a personalised LTA of £1.5 million but in return they had to stop contributing to money purchase schemes and cease to accrue new benefits in defined benefit or cash balance schemes. Fixed protection 2014 however potentially created a 'cliff-edge' for pension savers (and members of defined benefit schemes in particular), as in effect it required individuals to opt out of active membership of their scheme and become a deferred member.

7.3 The introduction of IP14 was intended to help those who want the flexibility of continuing to save in their pension scheme but are affected by the reduced lifetime allowance. IP14 is therefore of particular benefit for those who wanted to continue saving in their pension scheme after 6 April 2014, albeit that they will have a lower LTA than with fixed protection 2014 and will be subject to LTA charges on the additional savings

7.4 In order to rely on IP14, individuals must give notice to HMRC. Where a valid notice is received by HMRC, HMRC will issue a certificate to the individual setting out their personalised lifetime allowance. Individuals must present this certificate to the scheme administrator each time they crystallise any of their pension benefits if they want to benefit from IP14. This instrument sets out the process for individuals to apply for IP14.

- Consolidation

7.5 The instrument does not amend another instrument so consolidation is not an issue.

8. Consultation outcome

8.1 This instrument was subject to consultation as part of the formal consultation 'Pensions Tax Relief – Individual Protection from the Lifetime Allowance Charge' which was published on 10 June 2013. A summary of responses to this consultation was published on 10 December 2013.

8.2 Following the consultation, this instrument has been amended to reflect a change in the eligibility conditions for IP14. Some minor drafting changes have also been made.

9. Guidance

9.1 The guidance will be updated at the next available opportunity after the Regulations come into force to reflect the changes.

10. Impact

10.1 The impact on business, charities or voluntary bodies is negligible as this instrument specifies the information individuals have to provide and what actions HMRC have to take when an individual wishes to rely on IP14.

10.2 The impact on the public sector is negligible.

10.3 A Tax Information and Impact Note was published on 10 June 2013 and updated on 10 December 2013 and available in *Overview of Legislation in Draft*, published on the GOV.UK website on 10 December 2013. It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

11.1 This instrument applies to small business.

11.2 This instrument applies in the same way to small businesses as it does to any other business. Because of the nature of information to be provided, it would not be appropriate to have different requirements for small businesses.

12. Monitoring & review

12.1 The policy will be monitored through information collected from HMRC databases, tax returns, receipts and other statistics.

13. Contact

Paul Cottis at HMRC Tel: 03000 564209 or email: pensions.policy@hmrc.gsi.gov.uk , can answer any queries regarding the instrument.

STATUTORY INSTRUMENTS

2014 No.

INCOME TAX

The Registered Pension Schemes (Provision of Information) (Amendment) Regulations 2014

Made - - - -	***
Laid before the House of Commons	***
Coming into force - -	***

The Commissioners for Her Majesty's Revenue and Customs make the following Regulations in exercise of the powers conferred by section 251 of the Finance Act 2004(**a**) and now exercisable by them(**b**), and section 282(A1) of that Act(**c**).

Citation, commencement and effect

1.—(1) These Regulations may be cited as the Registered Pension Schemes (Provision of Information) (Amendment) Regulations 2014 and come into force on [XX] 2014.

(2) The amendments in regulations 2 to 5 have effect for the tax year 2014-15 and subsequent years.

Amendment of the Registered Pension Schemes (Provision of Information) Regulations 2006

2. The Registered Pension Schemes (Provision of Information) Regulations 2006(**d**) are amended as follows.

3. In regulation 2(1) (interpretation) after the definition of "fixed protection 2014"(**e**) insert—

> ""individual protection 2014" means transitional protection provided for under Part 1 of Schedule [YY] to the Finance Act 2014(**f**);".

4.—(1) The table appended to regulation 3(1) (provision of information by scheme administrator to the Commissioners) is amended as follows.

(2) In entry 6 (benefit crystallisation events and enhanced lifetime allowance, enhanced protection, fixed protection or fixed protection 2014)(**g**)—

(**a**) 2004 c. 12; section 251(4) was amended by paragraph 47 of Schedule 10 to the Finance Act 2005 (c. 7) and section 251(5)(aa) was inserted by section 49 of the Finance Act 2010 (c. 13).

(**b**) The functions of the Commissioners of Inland Revenue were transferred to the Commissioners for Her Majesty's Revenue and Customs by section 5(1) of the Commissioners for Revenue and Customs Act 2005 (c. 11). Section 50(1) of that Act provides that insofar as it is appropriate in consequence of section 5, a reference in an enactment, however expressed, to the Commissioners of Inland Revenue is to be treated as a reference to the Commissioners for Her Majesty's Revenue and Customs.

(**c**) Section 282(A1) was inserted by section 75(1) of the Finance Act 2009 (c. 10).

(**d**) S.I. 2006/567, amended by S.I. 2011/301, 2011/1797, 2013/1742; there are other amending instruments but none is relevant.

(**e**) The definition of "fixed protection 2014" was inserted by S.I. 2013/1742.

(**f**) 2014 c. [ZZ].

(**g**) Entry 6 has been amended by S.I. 2011/301, 2011/1797, 2013/1742.

(a) in the heading, for "or fixed protection 2014" substitute ", fixed protection 2014 or individual protection 2014",

(b) in the first column omit "or" at the end of paragraph (b)(iii) and insert at the end of paragraph (b)(iv)—

", or

(v) individual protection 2014.", and

(c) in the second column omit "or" at the end of paragraph (b) and insert at the end of paragraph (c)—

", or

(d) the Registered Pension Schemes and Relieved Non-UK Pension Schemes (Lifetime Allowance Transitional Protection) (Individual Protection 2014 Notification) Regulations 2014(**a**) (where the member relies on individual protection 2014).".

5. Regulation 11 (information provided by member to scheme administrator: enhanced lifetime allowance, enhanced protection, fixed protection or fixed protection 2014)(**b**) is amended as follows—

(a) in the heading, for "or fixed protection 2014" substitute ", fixed protection 2014 or individual protection 2014",

(b) omit "or" at the end of paragraph (b) and insert at the end of paragraph (c)—

", or

(d) individual protection 2014 by virtue of Part 1 of Schedule [YY] to the Finance Act 2014,", and

(c) after "Regulations 2013" insert "or the Registered Pension Schemes and Relieved Non-UK Pension Schemes (Lifetime Allowance Transitional Protection) (Individual Protection 2014 Notification) Regulations 2014".

[Name]
[Name]

Date Two of the Commissioners for Her Majesty's Revenue and Customs

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Registered Pension Schemes (Provision of Information) Regulations 2006 (S.I. 2006/567) ("the Principal Regulations").

The amendments are consequential on the amendments to Part 4 of the Finance Act 2004 (c. 12) made by the Finance Act 2013 (c. 29) which reduce the pensions lifetime allowance from £1,500,000 to £1,250,000 with effect from 6 April 2014.

Transitional protection ("individual protection 2014") is provided by Part 1 of Schedule [YY] to the Finance Act 2014 (c. [ZZ]) for individuals who think they are likely to exceed the reduced lifetime allowance when they become entitled to their pension benefits and who would otherwise face a lifetime allowance charge on the excess. Individuals must apply for individual protection 2014 on or before 5 April 2017.

(**a**) 2014/[XXXX].
(**b**) Regulation 11 was substituted by S.I. 2011/1797 and amended by S.I. 2013/1742.

Regulation 1 provides that the amendments made by this instrument have effect for the tax year 2014-15 and subsequent years. Power to make legislation with retrospective effect is contained in section 282(A1) of the Finance Act 2004, which allows regulations made under Part 4 of that Act (including under section 251) to include provision having effect in relation to times before they are made if that provision does not increase any person's liability to tax.

Regulation 3 inserts a definition of individual protection 2014 into the Principal Regulations.

Regulation 4 adds references to individual protection 2014 in entry 6 in the table appended to regulation 3(1) of the Principal Regulations.

Regulation 5 amends regulation 11 of the Principal Regulations so that if a member of a registered pension scheme intends to rely on individual protection 2014, the member must give to the pension scheme administrator the reference number issued by HM Revenue and Customs under the Registered Pension Schemes and Relieved Non-UK Pension Schemes (Lifetime Allowance Transitional Protection) (Individual Protection 2014 Notification) Regulations 2014 (S.I. 2014/[XXX]).

A Tax Information and Impact Note was published on 10 June 2013 and updated on 10 December 2013 and is available on the HMRC website at http://www.hmrc.gov.uk/thelibrary/tiins.htm. It remains an accurate summary of the impacts that apply to this instrument.

EXPLANATORY MEMORANDUM TO

THE REGISTERED PENSION SCHEMES (PROVISION OF INFORMATION) (AMENDMENT) REGULATIONS 2014

2014 No. [XXXX]

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs ("HMRC") and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument amends the Registered Pension Schemes (Provision of Information) Regulations 2006 (S.I. 2006/567) ("the Regulations"), as a consequence of the introduction of individual protection 2014 ("IP14") in the Finance Act 2014 ("FA 2014"). This instrument prescribes the information requirements for scheme administrators and individuals where an individual wants to rely on IP14 to reduce or eliminate a lifetime allowance ("LTA") charge.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 Part 4 of Finance Act 2004 ("the Act") made provision for the taxation of registered pension schemes. The Act introduced an overall limit on the amount of UK tax relieved pension savings that an individual can make, this is known as the LTA (sections 218 to 226 of the Act). Any pension savings that exceed the LTA are subject to a charge to income tax known as the LTA charge (section 214 of the Act).

4.2 Section 48 of FA 2013 amended section 218 of the Act and reduced the lifetime allowance from £1.5 million to £1.25 million for the 2014-15 tax year onwards. Part 1 of Schedule x to FA 2014 introduced a new transitional protection regime, IP14, for those who think they may be affected by the reduction in the LTA and who have total UK tax relieved pension savings of greater than £1.25m on 5 April 2014. IP14 will give individuals a personalised LTA based on the value of their pension savings on 5 April 2014, subject to an overall limit of £1.5 million. The Registered Pension Schemes and Relieved Non-UK Pension Schemes (Lifetime Allowance Transitional Protection) (Individual Protection 2014 Notification) Regulations 2014 (S.I. 2014/xxxx) set out how and when individuals may apply for IP14 and the conditions for maintaining this transitional protection.

4.3 Section 251 of the Act provides that HMRC may make provision in Regulations requiring persons of a prescribed description to provide information to HMRC or other persons of a prescribed description, in relation to matters relating to registered pension schemes. This instrument is made under section 251 and imposes the information requirements for individuals and pension scheme administrators where

an individual has IP14 and wants to rely on their IP14 certificate setting out their personalised LTA when they crystallise some or all of their pension savings. The information requirements are similar to those that apply where an individual relies on earlier forms of LTA transitional protection.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- What is being done and why

7.1 The Government provides tax relief on pensions savings to encourage individuals to take responsibility for retirement planning and to recognise that pensions are less flexible than other forms of saving. However, the cost of tax relief net of income tax on pensions has almost doubled over the last decade to an annual cost of around £35 billion by 2011-12. Reform to pensions tax relief is an integral part of the Government's deficit reduction package and as part of these reforms the Government has introduced restrictions to the amount of tax-free pension savings that can be made to ensure that pensions tax relief remains fair, affordable and sustainable.

7.2 The level of the standard LTA reduced from £1.5 million to £1.25 million from the 2014-15 tax year onwards. In recognition that reducing the LTA created a potential issue for individuals who may have already built up pension savings in the expectation that the LTA would remain at its previous level of £1.5 million, the Government introduced a transitional protection regime 'fixed protection 2014' to support individuals who had already made pension savings decisions based on the current level of the LTA. Individuals with fixed protection 2014 have a personalised LTA of £1.5 million but in return they had to stop contributing to money purchase schemes and cease to accrue new benefits in defined benefit or cash balance schemes.

7.3 Fixed protection 2014 potentially created a 'cliff-edge' for pension savers (and members of defined benefit schemes in particular), as in effect it required individuals to opt out of active membership of their scheme and become a deferred member. IP14 is therefore of particular benefit for those who wanted to continue saving in their pension scheme after 6 April 2014, albeit that they will have a lower LTA than with fixed protection 2014 and will be subject to LTA charges on any additional savings

7.4 In order to monitor compliance with IP14, the instrument being made sets out the information that scheme administrators and individuals must provide in connection with IP14.

- Consolidation

7.5 There are no plans to consolidate the instrument that is being amended.

8. Consultation outcome

8.1 This instrument was subject to consultation as part of the formal consultation 'Pensions Tax Relief – Individual Protection from the Lifetime Allowance Charge' which was published on 10 June 2013. A summary of responses to this consultation was published on 10 December 2013.

8.2 Minor drafting changes have been made to this instrument following the consultation.

9. Guidance

9.1 The guidance will be updated at the next available opportunity after the Regulations come into force to reflect the changes.

10. Impact

10.1 This instrument will impact on business, charities or voluntary bodies where they are a registered pension scheme, as it introduces new reporting requirements for pension scheme administrators in specified circumstances. Further information about this can be found in the Tax Information and Impact Note.

10.2 The impact on the public sector is the same as for other businesses.

10.3 A Tax Information and Impact Note was published on 10 June 2013 and updated on 10 December 2013, and available in *Overview of Legislation in Draft*, published on the GOV.UK website on 10 December 2013. It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

11.1 This instrument applies to small business.

11.2 This instrument applies in the same way to small businesses as it does to any other business. Because of the nature of information to be provided, it would not be appropriate to have different requirements for small businesses.

12. Monitoring & review

12.1 The policy will be monitored through information collected from HMRC databases, tax returns, receipts and other statistics.

13. Contact

Paul Cottis at HMRC Tel: 03000 564209 or email: pensions.policy@hmrc.gsi.gov.uk , can answer any queries regarding the instrument.

HM Revenue
& Customs

Pensions: Individual Protection 2014

Guidance Note
10 December 2013

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Introduction

As announced at Budget 2013, and following consultation over the summer, legislation will be introduced in Finance Bill 2014 to provide further transitional protection ('individual protection 2014') from the pensions lifetime allowance charge. This protection is being introduced because the standard lifetime allowance is reducing from £1.5 million to £1.25 million from 6 April 2014. Individuals who have pension savings of greater than £1.25 million on 5 April 2014 can apply for individual protection 2014, providing they don't have existing primary protection. Individual protection 2014 will give individuals 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.

This document provides some questions and answers in connection with individual protection 2014 based on the draft legislation published on 10 December 2013.

If you have any further questions in connection with these changes please contact -
Paul Cottis Telephone: 03000 564209 or e-mail pensions.policy@hmrc.gsi.gov.uk

Chapter 1 - Overview

1.1 Lifetime Allowance and Protection Overview

What is the lifetime allowance?

The lifetime allowance is the maximum amount of pension savings that you can build up over your lifetime that benefit from UK tax relief.

If when you crystallise your pension savings these are worth more than the lifetime allowance you'll pay a tax charge (the lifetime allowance charge) on the excess. There are eleven events, called benefit crystallisation events (BCEs), when your pension savings may crystallise. Most of these events occur when you take benefits from your pension scheme. For more information about the eleven BCEs see RPSM11102020.

The level of the standard lifetime allowance is being reduced from £1.5 million to £1.25 million with effect from 6 April 2014 onwards.

For further information on the lifetime allowance rules see Understanding the lifetime allowance for pension schemes

As a consequence of the reduction in the lifetime allowance from April 2014, there will be two new forms of transitional protection available, fixed protection 2014 ('FP14') and individual protection 2014 ('IP14').

Fixed protection 2014 (FP14)

FP14 is aimed at individuals who

- at 5 April 2014 have already built up savings of more than £1.25 million, or
- have planned to do so after that date in the expectation that the lifetime allowance would not reduce from the 2013-14 level.

FP14 will give you a protected lifetime allowance of £1.5 million. This means you can crystallise benefits worth up to £1.5 million without paying the lifetime allowance charge.

If you expect your pension savings to be more than £1.25 million (including taking into account past benefit crystallisation events) when you come to take your benefits on or after 6 April 2014, you can use FP14 to help reduce or eliminate the lifetime allowance charge. You must apply to HMRC for FP14 on or before 5 April 2014.

In return for this protection, the tax rules limit your ability to accrue future benefits. If you exceed these limits then you will lose your FP14. You can also lose FP14 in other circumstances. For further information on FP14 and how to apply see the FP14 standalone guidance.

The government has therefore decided to introduce in Finance Bill 2014 an additional form of protection - individual protection 2014 to offer individuals more flexibility in how they protect their savings.

Individual protection 2014 (IP14)

If you have pension savings on 5 April 2014 which have a value of more than £1.25 million, IP14 will allow you to protect those savings (up to a value of £1.5 million), as long as you don't have primary protection, see RPSM03100000.

IP14 will give you a protected lifetime allowance equal to the value of your pension savings on 5 April 2014 subject to an overall maximum of £1.5 million. Unlike FP14 there are no restrictions on future pension savings, although if they exceed your protected lifetime allowance the excess will be subject to the lifetime allowance charge.

IP14 is available even if your pension savings on 5 April 2014 have a value of more than £1.5 million. As the maximum protected lifetime allowance you can have with IP14 is £1.5 million, any savings in excess of this will not be protected and will be subject to the lifetime allowance charge when you crystallise your benefits. See RPSM11105000 for more guidance on the lifetime allowance charge.

Although IP14 will operate from 6 April 2014 the protection will not be available until after the Finance Bill 2014 has received Royal Assent. The application form APSS240 will therefore only be available from the date the supporting regulations come into force which is likely to be around the middle of August 2014. You will not be able to complete your application form for IP14 until then. You will have up to 5 April 2017 to submit your IP14 application form to HMRC.

1.2 IP 14 basic overview

Who can have IP14?

If you are a member of a registered pension scheme and/or a relieved member of a relieved non-UK pension scheme you can have IP14 provided that:

- on 5 April 2014, your pension rights in such schemes are valued at more than £1.25 million, and
- you do not have valid primary protection on 5 April 2014, and
- your application for IP14 is received by us by 5 April 2017 at the latest.

What will be my protected lifetime allowance under IP14?

If you successfully apply for IP14, 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 have?

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?

There are no restrictions. But any pension savings above your protected 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 IP14 protection will cease to apply and you will revert to the higher standard lifetime allowance.

How do I apply for IP14?

See page 7 of Chapter 2 of this guidance.

Can I have both FP14 and IP14?

Yes – See page 7 of Chapter 2 of this guidance.

Chapter 2 - Applying for IP14

Note – the legislation talks about “giving notice of an intention to rely on IP14” but for ease of understanding in this guidance the process for giving notice is referred to as making an application for IP14.

Who can apply for IP14?
[Paragraph 1(1) of the draft Schedule to Finance Bill 2014]

You can apply for IP14 even if you already have

- enhanced protection,
- fixed protection, or
- fixed protection 2014.

But you cannot apply if you have

- primary protection, or
- both enhanced protection and (dormant) primary protection.

If you want to apply for IP14 you will need to meet certain conditions. The conditions are that:

- you have one or more “relevant arrangements” (see following question) on 5 April 2014, and
- your relevant amount on 5 April 2014 is more than £1.25 million, and
- you do not have primary protection (see RPSM03100050 and RPSM03102000).

If you are satisfied you meet these conditions you can apply to HMRC for IP14.

What is a relevant arrangement?
[Paragraph 1(4) of the draft Schedule to Finance Bill 2014]

You have one or more relevant arrangements if on 5 April 2014:

- you are a member of one or more registered pension schemes, and/or
- you are a “relieved member” (see RPSM13102530 for more detail) of a “relieved non-UK pension scheme” (see RPSM13102520 for more detail). Very broadly this means you have funds in an overseas pension scheme which have benefitted from UK tax relief in some way, but not including savings that were in a registered pension scheme that have been transferred to the non-UK scheme.

What is my relevant amount?
[Paragraph 1(5) of the draft Schedule to Finance Bill 2014]

Your relevant amount is the total value on 5 April 2014 of your pension rights in all your relevant arrangements (see previous question). An individual can have different types of pension rights and for IP14 these have been categorised as Amounts A, B, C and D. There is more information about the rights in each category and how they are valued later in this guidance.

How do I apply for IP14? Do I have to complete a particular form?
[Draft IP14 notification regulations - regulation 4(2)(a)]

To apply for IP14 you will need to complete the application form APSS240. The application form will be available on the HMRC website when the supporting regulations have come into force. This is likely to be around the middle of August 2014. You will be able to complete the form on screen and submit it to HMRC online or you can complete it on screen then print off a copy of the form to send to HMRC. The form must be received by HMRC before 6 April 2017.

Can I apply online?

Yes. You will be able to complete the form APSS240 on screen and submit it to HMRC online or you can complete it on screen then print off a copy of the form to send to HMRC.

We recommend that you apply online as this is the most secure route and offers the benefit of immediate confirmation of receipt. The form must be received by HMRC before 6 April 2017.

Must I apply online?

No. Although you can do so you are not required to. Instead, you can either complete the form APSS240 on screen then print off a copy of the form to send to HMRC. Or you can download a copy of the blank form and complete it manually. Whichever option you choose, the form must be received by HMRC before 6 April 2017.

Who can complete the application form APSS240?

Anyone can complete the application form and submit it on your behalf.

I intend to apply for IP14. What would happen if I died before 6 April 2017 and before applying for IP14?
[Draft IP14 notification regulations – regulation 14]

Your personal representatives will have the right to apply in your place.

Can I apply for both FP14 and IP14 at the same time?

No, you will need to apply for each protection separately.

Your application for FP14 must be received by us before 6 April 2014.

The application form for IP14 is expected to be available from the middle of August 2014 and you will need to include on your application a valuation of your pension savings at 5 April 2014.

What is the final deadline for applying for IP14?
[Draft IP14 notification regulations – regulation 4(2)(c)]

Your application form must be received by us by 5 April 2017 at the latest. Applications received after that date will not be accepted.

Can I make a late application after 5 April 2017?
[Draft IP14 notification regulations - regulation 4(2)(c)]

No. Your application form must be received by us by 5 April 2017 at the latest. There is no provision in the draft legislation allowing HMRC to accept late applications. You must therefore ensure that your application is made on time.

What if I make an application on time but I have missed something out?

Applications must be received by us by 5 April 2017 at the latest.

If, when we receive it, the form contains any mistakes or is incomplete we will send you a letter asking for confirmation of the correct or missing information.

What information do I need to give on the application form?
[Draft IP14 notification regulations - regulation 4(1)]

Your application for IP14 must be made on the form APSS240 which will be available on the HMRC website (www.hmrc.gov.uk) from around the middle of August 2014. To complete the form correctly you will need to give the following details:

- confirmation that you don't have primary protection (see RPSM03100050 and RPSM03102000),
- the value of your pension savings, broken down into Amounts A, B, C and D as appropriate, see Chapter 3 of this guidance.
- the date and amount of any pension debit to which your pension savings have become subject since 6 April 2014 and before you make your application, and the amount of the discounted pension debit (that is, the amount by which your relevant amount is actually reduced - see Chapter 4 of this guidance for more detail).
- your full name and address,
- your date of birth, and
- your National Insurance number (or if you don't have a National Insurance number, the reasons for this).

Whoever completes the form must complete the declaration on the form declaring that the information they have given is correct and complete to the best of their knowledge and belief.

Will HMRC confirm receipt of my IP14 application?

If you want a receipt, we recommend that you apply online as you will receive immediate confirmation of receipt of your application.

We will not confirm receipt of paper applications sent in by post. But once we have accepted and processed your application form we will send you a certificate to state that you have IP14. So confirmation of receipt will effectively be the date you receive your IP14 certificate. If you need confirmation of delivery before then, you may therefore wish to consider sending your application to us by recorded delivery. HMRC is likely to start issuing certificates from October 2014.

If IP14 is dormant because you have one of enhanced protection, fixed protection or fixed protection 2014, as these protections are more favourable than IP14, your IP14 certificate won't be issued unless your IP14 becomes active because you have lost the other form of protection and notified us of this, as you are required to do. But we will write to you confirming that your IP14 application has been accepted.

How will I know if my application for IP14 has been accepted?
[Draft IP14 notification regulations – regulation 5]

If you do not have any existing protection, when we have received and processed your application form, if you are entitled to IP14, we will send you a certificate (with a unique reference number) stating that you have IP14 and the amount protected. You must keep this certificate safe as you will need to show it to your pension scheme(s) if you want to rely on IP14 when you come to take your benefits.

Where you have existing enhanced protection, fixed protection or fixed protection 2014, we will write and tell you that your IP14 application has been accepted. Your IP14 certificate won't be issued unless your IP14 becomes active.

Why would HMRC reject my application?
[Draft IP14 notification regulations - regulation 6]
HMRC may refuse to accept your application if:

- it is not made on the prescribed form APSS240 (either the online or paper version),
- all the information required has not been provided ,
- we receive your application after 5 April 2017.

Can I appeal if HMRC refuse to accept an application?
[Draft IP14 notification regulations - regulation 7]

If we refuse to accept your application and if we have not already done so, you can require us to give you the reasons for this. You may also appeal against the decision not to accept your application. You must tell HMRC that you want to appeal against that decision within 30 days of the day when we gave our decision to refuse to accept your application

Where the appeal is considered by the tribunal, the tribunal will decide whether HMRC was entitled to take the view that:

- the notice that you gave did not satisfy the notification requirements,
- the notice did not contain the required information,
- your application was not made on the prescribed form APSS240, or
- your application was not received by HMRC on or before 5 April 2017.

If the tribunal finds that HMRC should have accepted the notice then they may direct us to issue you an IP14 certificate. If HMRC's decision is upheld then you will either have to make a fresh application before 5 April 2017 or, if the decision is that the form was not received before that date, you will not be entitled to IP14.

See Appealing to the tribunal for further information.

What should I do if after making my application I realise I've given incorrect information?
[Draft IP14 notification regulations - regulation 8]

If you realise that either the information on your application form or any information given to us in connection with your application is incorrect or becomes incorrect later then you must provide us with the correct information without undue delay.

If HMRC has already issued your certificate, HMRC will then replace the current certificate with an amended certificate, which will supersede the first certificate.

If you do not provide this information you may be liable to penalties.

What should I do if following my divorce my pension rights have become subject to a pension debit?
[Draft IP14 notification regulations - regulation 9]

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.

If, at any time after we have issued you with an IP14 certificate, your pension rights become subject to a pension debit (see Chapter 4), you must inform us 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.

HMRC will if appropriate either

- issue a replacement certificate, which will supersede the first certificate, or
- revoke your certificate if the value of your pension rights following the debit has fallen below the standard lifetime allowance.

Any benefit crystallisation events that occurred after 5 April 2014 and before the effective date of the pension sharing order or provision, that is while your IP14 was still valid, will be unaffected by the replacement or revocation of your certificate.

If you do not provide this information you may be liable to penalties.

Can HMRC replace my certificate?
[Draft IP14 notification regulations - regulation 10]

Yes. We may issue a replacement certificate, with a separate unique reference number, if we have reason to believe that

- you have given incorrect information on form APSS240 or in connection with your application,
- the information given has since become incorrect, or
- your rights under the arrangement have become subject to a pension debit.

If you tell us that you have mislaid your certificate and explain why you need a duplicate certificate, a duplicate can be issued to you if we think it appropriate to do so.

When might HMRC revoke my certificate?
[Draft IP14 notification regulations - regulation 11]

HMRC may revoke your certificate if:

- we have reason to believe that that you were not entitled to IP14 because you did not satisfy one or more of conditions (see page 7),
- we have reason to believe that your relevant amount has been reduced below £1.25 million by a pension debit (see chapter 4), or
- you have failed to respond within the given deadline to a notice given by HMRC in connection with IP14 under paragraph 1 of Schedule 36 to Finance Act 2008, (see page 13).

Can I appeal against HMRC's replacement or revocation of my certificate?
[Draft IP14 notification regulations - regulation 12]

Yes. If HMRC replaces or revokes your IP14 certificate then, if we have not already done so, you can require us to give the reasons for this.

You may also appeal against our decision to replace or revoke your certificate. You must tell HMRC if you want to appeal against our decision within 30 days of the date when we gave our refusal decision.

Where the appeal is considered by the tribunal, the tribunal will decide whether HMRC had grounds to replace or revoke your certificate.

If the tribunal allows your appeal then they may direct HMRC to issue you with an IP14 certificate.

If your appeal is refused then your certificate remains either replaced or revoked. Your IP14 will be based on the replacement certificate or, if your certificate was revoked, you will have lost your IP14 from the date of revocation. Any benefits taken after your certificate has been replaced or revoked will be tested against your replacement protected lifetime allowance or the standard lifetime allowance if your certificate has been revoked.

But any benefits taken after 5 April 2014, whilst your IP14 was set at a higher level and was valid, will not be retested.

Do I need to keep any documents relating to my IP14 application?
[Draft IP14 notification regulations - regulation 13]

Yes. You must keep a copy of your IP14 certificate issued by HMRC until no further benefit crystallisation events can occur in respect of your pension savings.

Copies of the valuation of your pension benefits should not be submitted with the application form APSS240. However, you must keep all documents relating to the calculation of your relevant amount and amounts A, B, C and D (see chapter 3) for six years from the day on which your application is made to HMRC.

Is HMRC able to review the information I have provided on form APSS240?
[Paragraph 1 of Schedule 36 Finance 2008]

Yes. After you have made your application on form APSS240 and we have issued your IP14 certificate, we can review any information given on the form or in connection with your application for the purposes of checking your tax position. HMRC can call for any information or document by notice in writing where this is reasonably required to allow us to check your tax position. For more information, please see RPSM03100600.

You have a right to appeal against such a notice or any particular requirement in the notice. For more information, please see RPSM03100610.

What would happen if I were to provide you with fraudulent or negligent information?
[Section 98(2) Taxes Management Act 1970]

You may be liable to a penalty if you

- fraudulently or negligently provide false information in connection with any notification (including an enquiry into a notification), or
- produce or make available an incorrect document to HMRC in connection with any notification (including an enquiry into a notification).

A penalty will be due if as a result of the incorrect information, document or certificate your IP14 relevant amount (see page 7) should be less than you have told us. The penalty will be an amount up to £3000.

Chapter 3 - Valuing savings

3.1 General

I want to claim IP14. How should my pension savings be valued?
[Paragraphs 1(1)(b), 1(5) and 2 to 5 of the draft Schedule to Finance Bill 2014]

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 (Amount A),
- 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 (Amount B),
- pension savings that you have not yet taken from your UK pension scheme (Amount C), and
- pension savings in certain overseas pension schemes (Amount D).

When do my savings have to be valued?
[Paragraphs 1(1)(a) and (b), 1((b) and 2 to 5 of the draft Schedule to Finance Bill 2014]

You need to obtain the value of your pension savings at 5 April 2014. You will not be able to do this until after that date. HMRC will accept asset valuations already obtained to be treated as the value of the asset on 5 April 2014 where that valuation is at a date from 31 March 2014 to 4 April 2014 and there has been no material change in the assets since that date.

How do I obtain a valuation?

You can ask your pension scheme provider 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. Your scheme administrator is not obliged to give you this information but it is unlikely they will refuse to do so.

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.

'Scheme pays' is an agreement some people liable to the annual allowance charge make with their scheme so that the scheme pays the charge instead of the member and recovers the tax paid by reducing the member's benefits accordingly. For more information about scheme pays see RPSM06109000.

3.2 Valuing pre-6 April 2006 pensions in payment (Amount A)

[Paragraph 2 of the draft Schedule to Finance Bill 2014]

Why do I need to get a value for these pensions?

The tax rules say that the capitalised value of certain pensions, known as “relevant existing pensions”, that came into payment before 6 April 2006 will use up some or all of a person’s lifetime allowance should that person take further pension benefits on or after that date. However these pensions will not themselves be subject to the lifetime allowance charge.

So if you are receiving one or more pension of this kind they need to be included in the value of your savings to be protected by IP14.

What is a relevant existing pension?
[Paragraph 2(8) of the draft Schedule to Finance Bill 2014]

Broadly, a relevant existing pension is a pension or annuity which was in payment on 5 April 2006 and derived from UK tax-relieved pension savings. Specifically, a relevant existing pension is any of the following types of pension that was in payment on 5 April 2006 (unless it is being paid to you as a dependant following the death of a scheme member):

a. a pension under an approved Chapter I Part 14 Income and Corporation Taxes Act 1988 (ICTA) retirement benefits scheme

b. a pension from a scheme formerly approved under Section 208 ICTA 1970

c. a pension under a relevant statutory scheme (defined in section 611A ICTA 1988) or a scheme treated by HMRC as if it were a relevant statutory scheme

d. an annuity (or income drawdown) under any contract relating to (a) to (c) inclusive (such annuities/pensions include bought-out benefits where the contract is in the member’s name)

e. a pension under the Parliamentary pension schemes or funds

f. an annuity from a retirement annuity contract

g. an annuity from personal pension scheme funds approved under Chapter 4 Part 14 ICTA 1988

h. income withdrawals under a personal pension scheme.

What about the tax-free lump sum I received at the time I took my pre-6 April 2006 pension?

The value of the lump sum does not have to be taken into account as allowance is made for it in the multiplier used to value the pension (see next question).

How is my pre-6 April 2006 pension or annuity valued?
[Paragraph 2 of the draft Schedule to Finance Bill 2014]

The pension or annuity is valued by multiplying by 25 the annual rate at which it was payable on a certain date. The date used depends on whether or not you have already had a benefit crystallisation event (BCE) between 6 April 2006 and 5 April 2014. See RPSM11102020 for details about the 11 BCEs that can occur.

I have had not had any benefit crystallisation events (BCEs) - how is my pre-6 April 2006 pension or annuity valued?
[Paragraph 2(6) of the draft Schedule to Finance Bill 2014]

Your pre-6 April 2006 pension or annuity is valued by multiplying by 25 the annual rate of the pension or annuity payable to you on 5 April 2014. Note that it is the annual rate that counts and not the actual amount of pension you were paid in the previous 12 months. So if, on 5 April 2014, the annual rate at which your pension or annuity is payable is £10,000 then its value for IP14 is £250,000 (£10,000 x 25).

I am currently receiving a drawdown pension which I started taking as pension income before 6 April 2006. I have not had any benefit crystallisation events (BCEs) - how is my drawdown pension valued?
[Paragraph 2(6) and 2(7) of the draft Schedule to Finance Bill 2014]
[Paragraph 20(4) of Schedule 36 to Finance Act 2004]

If you are receiving what is now called a ‘drawdown pension’, prior to 6 April 2006 it would have been called either:

- income drawdown from a retirement benefits scheme or a deferred annuity contract (section 32 policy), or
- income withdrawal from a personal pension scheme.

To value your drawdown pension for IP14, multiply by 25 the maximum amount of drawdown pension you are able to take for your drawdown year which includes 5 April 2014 (note, not the amount you are actually taking each year).

You don’t need to get your drawdown pension fund reviewed as at 5 April 2014 to determine the maximum amount. Instead you should use the maximum amount calculated at your most recent review.

Example 1

Alan, who is aged 68, is receiving a drawdown pension, having entered income withdrawal on 15 January 2006. Alan’s most recent review took place on 14 January 2013 when his

maximum drawdown pension was calculated as being £30,000 per annum and this applies for his next 3 drawdown pension years. On 5 April 2014, the maximum drawdown pension Alan can take is therefore £30,000 although he is only taking £20,000 per year. The value of Alan's drawdown pension for IP14 is £750,000 (£30,000 x 25) and not £500,000 (£20,000 x 25). Alan should include £750,000 in respect of this pension in his IP14 relevant amount.

I have had a benefit crystallisation event (BCE) since 6 April 2006 - how is my pre 6 April 2006 pension or annuity valued?
[Paragraph 2(1)(a), 2(2) and 2(4) of the draft Schedule to Finance Bill 2014]
[Paragraph 20(4) of Schedule 36 to Finance Act 2014]

When your first BCE occurred (see RPSM11102020 for information about BCEs) the pension tax rules say that there was a deemed BCE in relation to any pre-6 April 2006 pension or annuity you were receiving and that this occurred immediately before the first actual BCE. An amount of lifetime allowance used up by your pre-6 April 2006 pension(s) and/or annuities was calculated at that time. Your pre-6 April 2006 pension or lifetime annuity will have been valued by multiplying by 25 the annual rate of the pension payable to you at the time the first BCE occurred. Note that it is the annual rate that counted and not the amount of pension or annuity paid in the previous 12 months.

Example 2

Barbara's first BCE occurred on 30 June 2009 when the annual rate at which her pre-6 April 2006 pension was payable was £10,000. Its value for lifetime allowance purposes would have been £250,000 (£10,000 x 25).

For IP14 purposes this same value is used as a starting point, but it is revalued using the formula

$$£250{,}000 \times \frac{£1{,}500{,}000}{\text{SLA}}$$

SLA is an amount equal to what the standard lifetime allowance was at the time the BCE occurred.

The formula is designed to take account of any change in the standard lifetime allowance since the BCE.

Barbara's first BCE was in tax year 2009-10. The standard lifetime allowance for that year was £1,750,000 (see RPSM11101010). So the value of her pension or annuity for IP14 is

$$£250{,}000 \times \frac{£1{,}500{,}000}{£1{,}750{,}000} = £214{,}286$$

(HMRC will accept rounding up to the nearest pound for administrative convenience).

I am currently receiving drawdown pension having started taking the pension before 6 April 2006. I have had one or more benefit crystallisation events (BCEs) since 6 April 2006 - how is my drawdown pension valued?
[Paragraph 2(1)(a), 2(2) and 2(4) of the draft Schedule to Finance Bill 2014]
[Paragraph 20(4) of Schedule 36 to Finance Act 2006]

If you are receiving what is now called a 'drawdown pension', before 6 April 2006 it would have been called either

- income drawdown from a retirement benefit scheme or a deferred annuity contract (section 32 policy), or
- income withdrawal from a personal pension scheme.

When your first BCE occurred (see RPSM11102020 for information about BCEs) the pension tax rules say that there was a deemed BCE in relation to your pre-6 April 2006 pension or annuity and that this occurred immediately before the first actual BCE. An amount of lifetime allowance used up by your pension(s) already in payment on 5 April 2006 was calculated at that time. In each case, the value of what is now your drawdown pension would have been calculated by multiplying by 25 the maximum amount of drawdown pension you were able to take in the drawdown pension year in which the BCE occurred.

Example 3

Chris is receiving a drawdown pension, having started income withdrawal in January 2006. His first BCE occurred on 30 June 2009 and for the drawdown pension year in which that date fell, the maximum drawdown pension he could have taken was £30,000 although he only took £20,000. The value of his drawdown pension was £750,000 (£30,000 x 25) and not £500,000 (£20,000 x 25).

For IP14 purposes this same value is used as a starting point, but it is revalued using the formula

$$£750{,}000 \times \frac{£1{,}500{,}000}{\text{SLA}}$$

SLA is an amount equal to what the standard lifetime allowance was at the time the BCE occurred.

The formula is designed to take account of any change in the standard lifetime allowance since the BCE.

Chris's first BCE was in tax year 2009-10. The standard lifetime allowance for that year was £1,750,000 (see RPSM11101010). So the value of his pension or annuity for IP14 is

$$£750{,}000 \times \frac{£1{,}500{,}000}{£1{,}750{,}000} = £642{,}858$$

(HMRC will accept rounding up to the nearest pound for administrative convenience).

3.3 Valuing pre-6 April 2014 benefit crystallisation events (Amount B)

[Paragraph 3 of the draft Schedule to Finance Bill 2014]

What is a benefit crystallisation event (BCE)?
[Section 216 Finance Act 2006]

Benefits are tested against the lifetime allowance whenever one of eleven benefit crystallisation events (BCEs) occur. Most, but not all, BCEs occur when your pension savings are taken as pension benefits (including certain tax-free lump sum benefits paid on your death) or when you reach age 75 without having taken some or all of your benefits. For more detail on the eleven BCEs see the guidance at RPSM11102020 and linked pages.

I have already taken pension benefits from a registered pension scheme or from a relieved non-UK pension scheme (RNUKS) since 5 April 2006 - how are they valued for the purposes of IP14?

From 6 April 2006, each time you took benefits from a registered pension scheme the value of those benefits will have been tested against the lifetime allowance as a benefit crystallisation event or BCE. A BCE may also have occurred if in certain circumstances you have taken benefits from a RNUKS (see the guidance at RPSM13102500 for more detail). You will need to identify the amount of lifetime allowance used up by each BCE and then revalue it to give a value as at 5 April 2014 (see next question on page 21).

How the amount of lifetime allowance that was used up is calculated will depend on the type of benefits that you have taken. There is guidance on this in the Registered Pension Schemes Manual at RPSM11104000 onwards. This explains in detail how the amount taken at a BCE is valued for the purposes of calculating how much lifetime allowance is used up by the particular BCE.

However, in very broad terms, the amount of LTA used up at the BCEs that may have occurred in respect of you is as follows:

If you have taken a scheme pension	BCE2	This will have used up an amount equal to your initial annual rate of pension multiplied by 20 (unless your scheme administrator has agreed a higher multiplier with HMRC but this is highly unlikely). So if your pension's starting rate was say £30,000 you will have used up £600,000 of your LTA. Any pension payable to a dependant on your death in retirement will not be a BCE and will therefore not use up any LTA.
If you have purchased a lifetime annuity	BCE 4	This will have used up an amount equal to the cost of the purchase of the annuity.

if you have taken a drawdown pension	BCE 1	This will have used up an amount equal to the total of the cash and the market value of any assets which you have designated as available to provide the drawdown pension.
If, when you took any of the above forms of pension, you also took a tax-free lump sum (called a pension commencement lump sum)	BCE 6	This will have used up the amount of the lump sum paid.
If you reached age 75 before 6 April 2014 and you took a drawdown pension before that age	BCE 5A	The value of your drawdown pension fund at age 75 **less** the amount already crystallised as a BCE 1.
If you have still not taken some or all of your benefits from your scheme at age 75	BCE 5 & BCE 5B	20 times the scheme pension **plus** any separate lump sum had you taken your benefits immediately before reaching age 75 (for a BCE 5), or the value of the pension savings in a money purchase arrangement in respect of which you have not yet taken benefits (BCE 5B).
If you have transferred sums and assets in respect of benefits you had accrued as a member of a registered pension scheme to a qualifying recognised overseas pension scheme	BCE 8	The total of (1) any sums transferred and (2) the market value of any assets transferred

In all cases, your scheme administrator will have given you a statement showing the percentage of the lifetime allowance used up by your BCE(s). Where you are receiving a pension from the scheme, they must give you this statement annually, at least until you have reached age 75. The percentage is rounded down to two decimal places and will be a percentage of the standard lifetime allowance in force at the time each BCE occurred, except where the BCE occurred after 6 April 2012 at a time when you had valid fixed protection. For these BCEs the percentage shown on your statement will be a percentage of £1.8 million and not of the standard lifetime allowance (£1.5 million) applying at that time.

The standard lifetime allowance in force for each tax year from tax year 2006-07 onwards was/is:

2006-07 £1,500,000
2007-08 £1,600,000
2008-09 £1,650,000

2009-10	£1,750,000
2010-11	£1,800,000
2011-12	£1,800,000
2012-13	£1,500,000
2013-14	£1,500,000
2014-15	£1,250,000

How is the amount of lifetime allowance used up by a pre-6 April 2014 benefit crystallisation event (BCE) revalued for IP14?
[Paragraph 3 of the draft Schedule to Finance Bill 2014]

You will need to identify each BCE that has occurred in relation to you since 6 April 2006, work out the amount that has crystallised by each BCE and then multiply it by the following fraction:

$$\frac{1{,}500{,}000}{SLT}$$

SLT is the standard lifetime allowance in force applicable to the member when each BCE occurred. For example, if the member has FP12 for tax years 2012-13 and 2013-14 when the lifetime allowance was £1.5 million their standard lifetime allowance is £1.8 million for those years.

Where you have had more than one BCE, it is the aggregate of the revalued amounts calculated as above that is Amount B.

Note: *In the examples that follow, it is assumed that the individual does not know the actual value of the amount(s) crystallised and is using their BCE statement percentage to calculate it. If the actual amount is known, or can be obtained from the scheme administrator, then this should be used instead where it provides a higher value because the LTA percentage was rounded down to two decimal places.*

Example 4 – Pension rights exceeding £1.25 million at 5 April 2014 but less than £1.5 million

On 23 May 2008, Matt who is then aged 61 takes a scheme pension of £45,000 (a BCE 2) and a pension commencement lump sum of £300,000 (a BCE 6) from his employer's occupational pension scheme. At that time, Matt has no form of protection and has not previously taken any pension benefits. His BCEs use up £1,200,000 of his lifetime allowance (£45,000 x 20 plus £300,000). In tax year 2008-09 the lifetime allowance was £1,650,000. So Matt's BCEs use up 72.72% (rounded down) of the standard lifetime allowance at the time and his scheme administrator is required to give Matt a statement showing this percentage. The scheme administrator will provide a statement annually until Matt reaches age 75 (in 2022). Matt has no further BCEs before 6 April 2014.

On 5 April 2014, Matt has uncrystallised rights valued at £400,000 (see Chapter 3.4**: valuing uncrystallised rights (Amount C)).** He decides to apply for IP14. He knows from his lifetime allowance statement that in 2008-09 he crystallised 72.72% of

£1,650,000. This converts into an amount of £1,199,880 (the rounding down accounts for this figure being less than the original value).

The revalued amount is £1,090,800 (£1,199,880 x 1,500,000/1,650,000).

Matt's total pension savings on 5 April 2014 are therefore:
£1,090,800 + £400,000 = £1,490,800.

So his IP14 protected lifetime allowance is £1,490,800. As he has already used up 72.72% of his lifetime allowance, he still has 27.28% of £1,490,800 available to him before exceeding his lifetime allowance and becoming liable for a lifetime allowance tax charge. This means he can take £406,690.24 in further benefits before having to pay the lifetime allowance charge.

Example 5 – Pension rights exceed £1.5 million on 5 April 2014

Holly has three personal pensions. On 5 July 2008, Holly who is then aged 56 takes a pension commencement lump sum of £100,000 (BCE 6) and purchases an annuity for £300,000 (BCE 4) from one of her personal pension schemes. At that time Holly has no form of protection and has not previously taken any pension benefits. Her BCEs use up £400,000 of her lifetime allowance. In tax year 2008-09 the lifetime allowance is £1,650,000. So her BCEs use up 24.24% (rounded down) and her scheme administrator is required to give Holly a statement showing this percentage. The scheme administrator will provide a statement annually until Holly reaches age 75 (in 2027).

On 2 August 2011, Holly takes a pension commencement lump sum of £150,000 (BCE 6) from another of her personal pension schemes and designates £450,000 as being available for the provision of drawdown pension. Her BCEs use up £600,000 of her lifetime allowance. In tax year 2011-12 the lifetime allowance is £1,800,000. So these BCEs use up 33.33% (rounded down) and her scheme administrator is again required to give Holly an annual statement showing this percentage. Holly now has 2 certificates showing that in total she has used up 57.57% of her lifetime allowance.

On 5 April 2014, Holly has uncrystallised rights valued at £700,000 (see Chapter 3.4**: valuing uncrystallised rights (Amount C)).** She decides to apply for IP14. She knows from her BCE statements that in 2008-09 she crystallised 24.24% of £1,650,000 and in 2011-12 33.33% of £1,800,000. This converts into amounts of £399,960 and £599,940 (the rounding down accounts for these figures being less than the original value of the benefits).

The revalued amounts are:

£363,600 (£399,960 x 1,500,000/1,650,000), and
£499,950 (£599,940 x 1,500,000/1,800,000)

Holly's total pension savings on 5 April 2014 are therefore
£363,600 + £499,950 + £700,000 = £1,563,550.

This is more than £1.5 million, so her personalised lifetime allowance for IP14 is £1,500,000. As she has already used up 57.57% of her lifetime allowance, Holly has 42.43% of £1.5 million available to her before exceeding her lifetime allowance. This means she can take £636,450 in further benefits before having to pay the lifetime allowance charge.

I have taken pension benefits from a registered pension scheme since 5 April 2012 while I had valid Fixed Protection. I wish to apply for IP14. How are those benefits valued for the purposes of IP14?
[Paragraph 3 of the draft Schedule to Finance Bill 2014]

These benefits are valued in the same way as any other crystallised benefits (see the question immediately above). But, when converting the percentage shown on your lifetime allowance statement into a capital value you need to remember that this has been calculated as a percentage of your £1.8 million fixed protection lifetime allowance and not the standard lifetime allowance of £1.5 million.

So if your lifetime allowance statement shows say 50% of your lifetime allowance as having been used up by the BCEs, this converts into £900,000 (50% of £1.8 million) for IP14 purposes.

However, if you know the actual value of the amount(s) crystallised or this can be obtained from the scheme administrator of the scheme(s) from which you have taken benefits, you should use this amount instead where it provides a higher value than that obtained by converting the lifetime allowance statement percentage because the lifetime allowance percentage has been rounded down to two decimal places.

Example 6 – valid FP on 5 April 2014, IP14 if FP is subsequently lost

Samina has three personal pensions. On 5 July 2008, Samina was aged 55 and took a pension commencement lump sum of £100,000 (BCE 3) and purchased an annuity for £300,000 (BCE 4) from one of her personal pension schemes. At that time, Samina had no form of protection and had not previously taken any pension benefits. Samina's BCEs used up £400,000 of her lifetime allowance. In tax year 2008-09 the lifetime allowance was £1,650,000. So her BCEs used up 24.24% of the standard lifetime allowance (rounded down). The scheme administrator will provide a statement showing this percentage annually until Samina reaches age 75 (in 2028).

Samina applied for fixed protection so has a lifetime allowance of £1.8 million from 6 April 2012. On 9 September 2012, Samina took a pension commencement lump sum of £150,000 (BCE 6) from another of her personal pension schemes and designated £450,000 as being available for the provision of drawdown pension. Her BCEs used up £600,000 of her lifetime allowance. In tax year 2012-13 the standard lifetime allowance was £1,500,000. But Samina has fixed protection so the percentage to be shown on her lifetime allowance statement is a percentage of £1,800,000 and not of the £1,500,000 standard lifetime allowance. So her BCEs use up 33.33% (rounded down) and her scheme administrator gives her an annual statement showing this percentage. Samina now has 2 certificates showing that in total she has used up 57.57% of her lifetime allowance.

On 25 March 2013, Samina loses her fixed protection. Samina has uncrystallised rights valued at £700,000 on 5 April 2014 (see Chapter 3.4**: valuing uncrystallised rights (Amount C)).** She decides to apply for IP14. She knows from her BCE statements that in 2008-09 she crystallised 24.24% of £1,650,000 and in 2012-2013 33.33% of her £1,800,000 fixed protection lifetime allowance. This translates into amounts of £399,960 and £599,940 (the rounding down accounts for these figures being less than the original value of the benefits).

The revalued amounts are:

£363,000 (£399,960 x 1,500,000/1,650,000), and
£499,950 (£599,940 x 1,500,000/1,800,000 (this being Samina's FP12 lifetime allowance at the time of the BCE)

Samina's total pension savings on 5 April 2014 are therefore £363,000 + £499,950 + £700,000 = £1,562,950

As this is more than £1.5 million, Samina's personalised LTA for IP14 is £1,500,000. As she has already used up 57.57% of her lifetime allowance she still has 42.43% of £1.5 million available to her before exceeding her lifetime allowance. This means she can take £636,450 in further benefits before having to pay the lifetime allowance charge.

3.4 Valuing uncrystallised rights at end of 5 April 2014 under registered pension schemes (Amount C)

[Paragraph 4 of the draft Schedule to Finance Bill 2014]

I have not taken my registered pension scheme pension benefits yet – how are they valued?
[Section 212 Finance Act 2004 and paragraph 4 of the draft Schedule to Finance Bill 2014]

Pension benefits from savings in a registered pension scheme that you have not yet taken are referred to as "uncrystallised rights" in the pensions tax legislation.

The valuation method differs depending on the type of arrangement that your pension savings are in.

Your savings in a registered pension scheme could be in any - or all - of the following types of arrangement:

- other money purchase arrangements (that is money purchase arrangements that are not cash balance arrangements),
- cash balance arrangements (a form of money purchase arrangement)**,**
- defined benefits arrangements, and

- hybrid arrangements

What is an other money purchase arrangement?
[Section 152 Finance Act 2004]

Other money purchase arrangements (which are sometimes known as defined contribution arrangements) are where the level of benefits provided to a member under the arrangement is calculated by reference to a capital amount of money that is made available to provide benefits, normally through a mixture of contributions and investment growth. This capital amount may be more colloquially referred to as the individual's 'pot'. The precise amount of benefits the member receives will not be known in advance; it will depend on what the capital amount of money can provide at the time, which may depend on factors such as prevailing annuity rates.

Under the pensions tax legislation these are known as 'money purchase arrangements that are not cash balance arrangements'.

What is a cash balance arrangement?
[Section 152 Finance Act 2004]

A cash balance arrangement is a particular type of money purchase arrangement. Under a cash balance arrangement, the amount available to provide the member's benefits is not calculated purely by reference to payments made under the arrangement by or on behalf of the member.

For example, the scheme may promise that on retirement a specified amount will be made available to provide the member with benefits for each year of pensionable service. The specified amount might be an absolute amount, for example £5,000 for each year of service, or it might be a percentage of the member's salary for each year of service.

Although the benefits provided under the arrangement will still be money purchase benefits (because they are calculated by reference to the member's pot), a cash balance arrangement is treated differently from other money purchase arrangements for the purpose of valuing the member's uncrystallised pension rights.

What is a defined benefits arrangement?
[section 152 Finance Act 2004]

Defined benefit arrangements are where the level of benefits provided to a member is calculated in any way other than by reference to a capital amount of money that is made available to provide benefits to or in respect of the member. This includes benefits calculated and paid by reference to the earnings and/or service with an employer (or any other similar factor). So the member may have a promise of a certain level of benefit based on what their salary/service etc. is at a given point, irrespective of the funds (if any) built up by that time from contributions made by and on behalf of the member. The member knows in advance what their entitlement will be (if not the exact level of benefits). Arrangements where benefits are built up by reference to final salary and years of service and career average arrangements are examples of defined benefits arrangements.

What is a hybrid arrangement?
[section 152 Finance Act 2004]

A hybrid arrangement is an arrangement where the type of benefit that will be provided is not known in advance because it will depend on certain given circumstances at the point benefits are drawn.

For example, the arrangement may provide the member with other money purchase benefits based on the contributions that have accrued over time, but be subject to a defined benefits minimum or underpin. So if, at the point in time when the member decides to take their benefits, the value of the benefits that could be provided by the money purchase pot is less than a certain defined level, for example a pension of 1/60th of final salary for every year worked, that higher defined benefit is provided instead.

There are various combinations of hybrid arrangement. The member may be provided with:

- either other money purchase or cash balance benefits,
- either other money purchase or defined benefits,
- either cash balance or defined benefits, or
- other money purchase, cash balance or defined benefits.

At the point in time when benefits are drawn or entitlement arises under a hybrid arrangement it ceases to be a hybrid arrangement, and will either be a money purchase arrangement or a defined benefits arrangement, as appropriate. In other words, if the benefits provided are other money purchase or cash balance benefits then the arrangement will become a money purchase arrangement. And if the benefits provided are defined benefits then the arrangement will become a defined benefits arrangement.

I have pension savings in a money purchase arrangement that is not a cash balance arrangement. How should they be valued for IP14?
[Section 212(5) Finance Act 2004]

The value of your uncrystallised rights on 5 April 2014 will be the aggregate of the value of any cash held under the arrangement and the market value of the other assets such as property and shares held by the arrangement. Any loans or other indebtedness should be included in the calculation.

***Example* 7**

On 5 April 2014, Fred has an arrangement in a self-invested personal pension scheme (SIPP). On that day the arrangement has £350,000 in cash at the bank and holds quoted shares worth £500,000 and a commercial property for which a valuation of £800,000 as at 5 April 2014 has been obtained. The scheme borrowed £400,000 to fund the purchase of the commercial property and the amount still owing on the loan on 5 April 2014 is £150,000. The value of Fred's SIPP for IP14 is therefore £1.5 million (£1.65 million cash and assets - £150,000 outstanding on the loan).

I have pension savings in a cash balance arrangement. How should they be valued for IP14?
[Sections 212(4) and 277 FA 2004]

The value of your uncrystallised rights on 5 April 2014 is the amount that would be available for the provision of immediate benefits if you had been entitled to receive them on that day but subject to two valuation assumptions.

The two valuation assumptions are that:

- the benefit should be calculated assuming, if you have not already done so, that you have reached the age at which no reduction would apply under your scheme's rules to the payment of an immediate benefit, and
- you are deemed to be in good physical and mental health on 5 April 2014.

Example 8

Joan has pension savings in a cash balance arrangement. Under her pension scheme rules, Joan is promised a pension pot equal to £20,000 for each year of service. On 5 April 2014, Joan, who is 54, has completed exactly 20 years of service. For IP14 purposes, the value of Joan's pension pot is £400,000 regardless of how much money is actually in her pot on 5 April 2014.

I have pension savings in a defined benefits arrangement. How should they be valued for IP14?
[Sections 212(6) and 277 Finance Act 2004]

The value of your uncrystallised rights on 5 April 2014 will be the total of

- 20 x your gross annual pension built up to date, ignoring any potential commutation of part of the pension for a tax-free lump sum (known as a pension commencement lump sum), and
- the value of any separate lump sum built up to date. For example if you are in a pension scheme that provides a pension of 1/80th final salary and a separate lump sum of 3/80ths final salary for each year of pensionable service.

The annual pension and separate lump sum to be valued are those which would be paid if you were to take them on 5 April 2014 but subject to two valuation assumptions.

The two valuation assumptions are that:

- the benefit should be calculated assuming, if you have not already done so, that you have reached the age at which no reduction would apply under your scheme's rules to the payment of an immediate benefit, and
- you are deemed to be in good physical and mental health on 5 April 2014.

Example 9

Raj is a member of a defined benefits scheme with an accrual rate of 1/40th of pensionable earnings for each year in the scheme.

On 5 April 2014 Raj is aged 50, is still in pensionable service, has pensionable earnings of £90,000 and has completed exactly 20 years pensionable service. His normal retirement age under the scheme is 60. Under the scheme's rules, when a pension is taken before age 60, the pension is reduced by 5% for each year the member is below that age. So if Raj actually took his pension on 5 April 2014 it would be reduced by 50%.

For the purposes of the IP14 valuation however Raj is assumed to be 60 and so his promised pension is £45,000 (20/40 x £90,000) with a value for IP14 of £900,000 (20 x £45,000).

Example 10

Sue is a member of a defined benefits scheme providing a pension with an accrual rate of 1/80th and a lump sum of 3/80ths of pensionable earnings for each year in the scheme.

On 5 April 2014 Sue is aged 53, is still in pensionable service, has pensionable earnings of £80,000 and has completed exactly 30 years pensionable service. Her normal retirement age under the scheme is 60. Under the scheme's rules, when a pension is taken before age 60, the pension is reduced by 4% and the lump sum by 2% for each year the member is below that age. So if Sue actually took her pension and lump sum on 5 April 2014 they would be reduced by 28% and 14% respectively.

For the purposes of the IP14 valuation however Sue is assumed to be 60 and so her promised pension is £30,000 (30/80 x £80,000) with a value for IP14 of £600,000 (20 x £30,000) and her promised lump sum is £90,000 (90/80 x £80,000). The aggregate value of her pension rights is £690,000.

Example 11

Harry is a member of a defined benefits scheme with an accrual rate of 1/60th of pensionable earnings for each year in the scheme up to 20 years and 2/60ths of final salary for each year of service from 20 to 30 years.

On 5 April 2014 Harry is aged 61, is still in pensionable service, has pensionable earnings of £120,000 and has completed exactly 26 years pensionable service. His normal retirement age under the scheme is 60. Under the scheme's rules, when a pension is taken before age 60, the pension is reduced by 4% and the lump sum by 2% for each year the member is below that age. There is no late retirement uplift if benefits are taken after age 60. He has accrued a pension worth 32/60ths because he has 20 years service at 1/60th and 6 years at 2/60ths of his pensionable earnings.

For the purposes of the IP14 valuation Harry's actual age (61) is used as this is more than 60. His promised pension is £64,000 (32/60 x £120,000) with a value of £1,280,000 (20 x £64,000).

I have pension savings in a defined benefits arrangement. As well as providing a pension with a lump sum by commutation, I am also entitled to a lump sum of 4 times my salary if I die in service. Does the value of my death benefit count for IP14? [section 212(6) FA 2004]

No. This value should not be included in your IP14 valuation as only your promised pension benefits count as your uncrystallised rights.

I have pension savings in a hybrid arrangement. How should they be valued for IP14?
[Section 212(7) and if appropriate section 277 FA 2004]

Your uncrystallised pension rights are valued on the basis of whichever rights have the highest or higher value.

For example, you may have rights in an arrangement to take benefits from your fund on a money purchase basis, or take benefits at say 1/100th of pensionable earnings for each year of service. Your money purchase fund and your defined benefits would both be valued as at 5 April 2014 and the higher value would apply for the purposes of IP14. For details of how the values are arrived at see earlier guidance in Chapter 3.4.

3.5 Valuing uncrystallised rights at end of 5 April 2014 under relieved non-UK pension schemes (Amount D)

[Paragraph 5 of the draft Schedule to Finance Bill 2014]

What is a relieved non-UK scheme?
[Paragraphs 13(3) and 18 of Schedule 34 to Finance Act 2006]

Very broadly, this is a particular type of overseas pension scheme. See RPSM13102530 for more detail about which overseas pension schemes are relieved non-UK pension schemes

I am a member of a relieved non-UK scheme, how do I tell if I am a relieved member of the scheme?
[Paragraph 13(2) and 18 of Schedule 34 to Finance Act 2006]

You may be a relieved member of a relieved non-UK scheme if you have funds in an overseas pension scheme and the contributions going into the scheme got UK tax relief. The precise conditions for this are set out in RPSM13102520 (relieved members) and RPSM13102530 (relieved non-UK schemes).

I am a relieved member of one or more relieved non-UK schemes. Which of my pension rights in the scheme will count towards the relevant amount? How is this done?
[Paragraph 5 of the draft Schedule to Finance Bill 2014]
[Paragraph 14 of Schedule 34 to Finance Act 2006]

Your relevant amount will be or will include (if you also have any of Amounts A, B and C) the "untested portion" of your "relevant relieved amount" in each scheme. Solely for the purpose of valuing these rights for IP14, there is deemed to be a benefit crystallisation event occurring on 5 April 2014 in relation to each of your "relevant relieved amounts" so the "untested portion" can be identified. The aggregate of the untested portions is Amount D and is your relevant amount or, if you also have any of Amounts A, B and C it is added to those amounts to arrive at your relevant amount.

Why is there a deemed benefit crystallisation amount in relation to my untested portion?

The deemed benefit crystallisation event triggers the valuation process for the untested portion.

I am a relieved member of one or more relieved non-UK schemes. What is my relevant relieved amount in that scheme?
[Paragraph 5 of the draft Schedule to Finance Bill 2014]
[Paragraph 14 of Schedule 34 to Finance Act 2006]

The relevant relieved amount is that part of your scheme fund which gets tested for lifetime allowance when you take benefits as a relieved member of a relieved non-UK pension scheme. It is limited to only that part of your savings in the scheme derived from contributions which received UK tax relief and which were made to the scheme after 5 April 2006. This category includes any such savings transferred as part of a bulk transfer between schemes in certain specified circumstances. For more detail about the relevant relieved amount see RPSM13102540.

What is the untested portion?
[Paragraph 5 of the draft Schedule to Finance Bill 2014]
[Paragraph 14 of Schedule 34 to Finance Act 2006]

The untested portion of your relevant relieved amount is your total relevant relieved amount less all the amounts previously crystallised in respect of you under the relieved non-UK pension scheme. For more detail about how this applies see RPSM13102540 and the examples at RPSM13102550 and RPSM13102560.

Chapter 4 – Pension debits

[Paragraph 1(6)-(8) of the draft Schedule to Finance Bill 2014]

Can I lose IP14?
[Paragraph 1(6)-(8) of the draft Schedule to Finance Bill 2014]

There is only one situation where you may have your IP14 protection reduced or lost. This is if, after 5 April 2014, you become subject to a pension debit as a result of a pension sharing order following your divorce, as this will reduce the value of your relevant amount.

What is a pension debit?
[Section 46(1) Welfare Reform and Pensions Act 1999 and Article 43(1) Welfare Reform and Pensions (Northern Ireland) Order 1999]

An individual's pension rights may be reduced as a result of the rights becoming subject to a pension debit. This happens when an individual divorces and their pension rights become the subject of a pension sharing order. A pension debit is the amount by which the value of the individual's pension rights are reduced, with a corresponding pension credit in the same amount being given to their ex-spouse or former civil partner. The reduction due to the pension debit applies from the effective date of the pension sharing order and not, where this is later, the date on which your pension rights are actually split by your pension scheme(s).

What happens to my IP14 when I have a pension debit?
[Paragraph 1(6)-(8) of the draft Schedule to Finance Bill 2014]

If you become subject to a pension debit your relevant amount for IP14 will be reduced by the amount of the pension debit. However, if you become subject to a pension debit after 6 April 2015 then (for IP14 purposes only) the amount of the pension debit is reduced by 5% for each full tax year (there is no reduction for a part year) that has elapsed since tax year 2013-14. Your relevant amount is then reduced by that reduced pension debit.

Where the pension debit reduction results in your relevant amount being less than £1.25 million you will lose your IP14 and revert to the standard lifetime allowance. The standard lifetime allowance will only apply to any benefit crystallisation events RPSM11102020 that take place after your rights have been reduced by the pension debit. So if you have already taken benefits in excess of the standard lifetime allowance before your rights are reduced, these remain protected.

Example 12

Gianni has no protection other than IP14. The value of his pension savings on 5 April 2014 was £1.7 million. This is Gianni's relevant amount and his protected lifetime allowance for IP14 is therefore £1.5 million.

In June 2014, Gianni's pension rights are subject to a pension debit of £200,000. As no complete tax year has elapsed, his relevant amount is reduced by reference to the full pension debit to £1.5 million. Gianni's protected lifetime allowance however remains at £1.5 million as this is now the amount of his relevant amount.

Gianni crystallises his benefits in December 2017 when the standard lifetime allowance is £1.25 million. Gianni's pension savings are now worth £1.6 million for lifetime allowance purposes. Gianni can take benefits valued up to £1.5 million without being subject to the lifetime allowance charge, with the charge applying to the remaining £100,000.

Example 13

Kevin has no protection other than IP14. The value of his pension savings on 5 April 2014 was £1.7 million. This is Kevin's relevant amount and his protected lifetime allowance for IP14 is therefore £1.5 million.

In June 2014, Kevin's pension rights are subject to a pension debit of £400,000. As no complete tax year has elapsed, his relevant amount is reduced by reference to the full pension debit to £1.3 million. Kevin's protected lifetime allowance is therefore reduced to £1.3 million.

Kevin crystallises his benefits in December 2014 when the standard lifetime allowance is £1.25 million. Kevin's pension savings are now worth £1.6 million for lifetime allowance purposes. Kevin can take benefits valued up to £1.3 million without being subject to the lifetime allowance charge, with the charge applying to the remaining £300,000.

Example 14

Julie has no protection other than IP14. The value of her pension savings on 5 April 2014 was £1.8 million. This is her relevant amount. As Julie's relevant amount exceeds £1.5 million, her protected lifetime allowance for IP14 is £1.5 million.

In March 2015 Julie crystallises benefits worth £1.4 million relying on IP14 to prevent a lifetime allowance charge arising as the standard lifetime allowance at that time is £1.25 million. This uses up 93.33% of Julie's protected lifetime allowance. So she has unused lifetime allowance of 6.67%.

In December 2020, the value of Julie's remaining pension rights have risen to £600,000 but are reduced by a pension debit of £400,000 as a result of a pension sharing order with an effective date of 15 August 2020. This leaves Julie with £200,000 of pension rights.

By 15 August 2020, six complete tax years have passed since tax year 2013-14. So the pension debit that is applied to her relevant amount is reduced by 30% to £280,000. Julie's £1.8 million relevant amount is therefore reduced to £1.52 million because of the reduced £280,000 pension debit. Julie's protected lifetime allowance therefore remains at £1.5 million.

Julie crystallises her remaining £200,000 pension rights in March 2021 when the standard lifetime allowance is still £1.25 million. Julie has 6.67% remaining lifetime allowance

available. Applying this percentage to her protected lifetime allowance of £1.5 million produces an amount of £100,050 as available lifetime allowance. Julie is therefore subject to a lifetime allowance charge on £99,950.

Example 15

Irmgard has no protection other than IP14. The value of her pension savings on 5 April 2014 was £1.4 million. This is her relevant amount. As Irmgard's relevant amount is less than £1.5 million, her protected lifetime allowance for IP14 is £1.4 million.

In March 2015 Irmgard crystallises benefits worth £1.3 million relying on IP14 to prevent a lifetime allowance charge arising as the standard lifetime allowance at that time is £1.25 million. This uses up 92.85% of Irmgard's protected lifetime allowance. So she has unused lifetime allowance of 7.15%.

In December 2020, the value of Irmgard's remaining pension rights have risen to £150,000 but are reduced by a pension debit of £100,000 as a result of a pension sharing order with an effective date of 15 August 2020. This leaves Irmgard with £50,000 of pension rights.

By 15 August 2020, six complete tax years have passed since tax year 2013-14. So the pension debit is reduced by 30% to £70,000. Irmgard's relevant amount is therefore reduced to £1.33 million because of the reduced £70,000 pension debit. Irmgard's protected lifetime allowance is now also £1.33 million.

Irmgard crystallises her remaining £50,000 benefits in March 2021 when the standard lifetime allowance is still £1.25 million. As Irmgard has £95,095 remaining lifetime allowance available (£1.33 million x 7.15%), she is not subject to a lifetime allowance charge.

Do I have to tell HMRC if my pension rights are reduced as a result of a pension debit?

Yes. You must tell HMRC, within 90 days of the date of your pension rights becoming subject to a pension sharing order, that your pension rights have become subject to a pension sharing order and state the amount of the pension debit and the net amount of the pension debit taking into account any required reduction to this. HMRC will then either revoke your IP14 certificate if your relevant amount is less than £1.25 million or issue a replacement certificate in relation to the reduced relevant amount if this is still in excess of £1.25 million.

If you do not provide this information within 90 days you may be liable to penalties.

Example 16 – Individual with IP14 protection only who has taken benefits between (but not before) 6 April 2006 and 5 April 2014

Andrei applies for IP14 and his relevant amount is £1.45 million meaning he has a protected lifetime allowance of that amount. He has had the following BCEs since 6 April 2006. Andrei has not had any other form of protection. He continues to accrue benefits in his current registered pension scheme.

a. On 20 June 2007 he crystallised benefits with a value of £300,000
b. On 5 May 2009 he crystallised benefits with a value of £500,000
c. On 5 August 2011 he crystallised benefits worth £400,000

On 21 September 2016, when the standard lifetime allowance is £1.25 million, he crystallises his remaining benefits which are money purchase benefits and at that time have a value of £400,000. He takes a tax-free lump sum of £100,000 and designates £300,000 as available for drawdown pension. Is he liable to a LTA charge and if so how much?

First calculate how much lifetime allowance Andrei has already used up:

a. The 2007 benefits crystallised when the LTA was £1.6m so Andrei used up **18.75%** of his lifetime allowance (£300,000/£1.6m x 100).

b. The 2009 benefits crystallised when the LTA was £1.65m so Andrei used up **30.30%** (rounded down to two decimal places) of his lifetime allowance (£500,000/£1.65m x 100).

c. The 2011 benefits crystallised when the LTA was £1.8m so Andrei used up **22.22%** (rounded down to two decimal places) of his lifetime allowance (£400,000/£1.8m x 100).

Andrei has therefore already used up **71.27%** of his lifetime allowance so has **28.73%** of his protected lifetime allowance available. This amounts to benefits valued at £416,585.

As Andrei has crystallised benefits worth £400,000 he is not liable for any lifetime allowance charge.

Example 17 – Individual with IP14 protection only who has not taken benefits between 6 April 2006 and 5 April 2014 but is receiving a pre-6 April 2006 pension

Bridget applies for IP14 and her relevant amount is £1.6 million meaning she has a protected LTA of £1.5 million. She has not had any other form of protection. Her benefits on 5 April 2014 consist of an occupational pension that came into payment before 6 April 2006 and uncrystallised pension rights. Bridget continues to accrue benefits in her current registered pension scheme.

On 21 September 2016, when the standard lifetime allowance is £1.25 million, Bridget crystallises her remaining benefits which are defined benefits. She receives a scheme pension of £20,000 per annum and a pension commencement lump sum (PCLS) of £120,000. For lifetime allowance purposes Bridget has crystallised benefits worth £520,000 (scheme pension £20,000 x 20 + PCLS £120,000). Is she liable to a LTA charge and if so how much?

When Bridget takes her benefits, the annual rate of her pre-6 April 2006 pension is £60,000. Under the tax rules, there is a deemed benefit crystallisation event in relation to her pre A-day pension on 21 September 2016 which crystallises £1.2 million (£60,000 x 20).

Bridget has £300,000 of her protected lifetime allowance left after the deemed benefit crystallisation event. She can take 25% of this (£75,000) as a pension commencement lump sum.

Bridget's total crystallised benefits are valued at £1.72 million. As Bridget's protected lifetime allowance is £1.5 million, she is liable to a lifetime allowance charge on £220,000. Bridget's lump sum is paid 2 weeks after she becomes entitled to her pension so £75,000 is a pension commencement lump sum and £45,000 is a lifetime allowance excess lump sum subject to a 55% lifetime allowance charge. That part of Bridget's scheme pension which has a lifetime allowance value of £225,000 uses up her remaining available lifetime allowance. Using the 20:1 factor, this amounts to scheme pension of £11,250 per annum. So the lifetime allowance value of the remainder (£8750 x 20 = £175,000) of Bridget's scheme pension is liable to a 25% lifetime allowance charge.

Bridget's lifetime allowance liability is therefore

£45,000 @ 55% =	£24,750
£175,000 @ 25% =	<u>£43,750</u>
Total	£68,500

Example 18 – Individual with IP14 protection only who has taken benefits between 6 April 2006 and 5 April 2014 and is receiving a pre-6 April 2006 pension

Chandra applies for IP14 and his relevant amount is £1.4 million meaning he has a personalised LTA of that amount. He has had one benefit crystallisation event since 6 April 2006 and also has an occupational pension that came into payment before 6 April 2006. Chandra has not had any other form of protection. He continues to accrue benefits in his current registered pension scheme.

On 1 July 2016 Chandra crystallises his remaining benefits which are money purchase benefits and at that time have a value of £600,000. He takes a tax-free lump sum of £150,000 and designates £450,000 as available for drawdown pension. Is he liable to a LTA charge and if so how much?

First calculate how much lifetime allowance Chandra has already used up. Chandra crystallised (took) benefits worth £200,000 on 15 August 2009 when the lifetime

allowance was £1.75 million. When he crystallised these benefits the annual rate of Chandra's pre-6 April 2006 pension was £40,000. Under the tax rules, there is a deemed benefit crystallisation event in relation to his pension which crystallises £800,000 (£40,000 x 20). The total benefits crystallised are therefore £1 million. This used up **57.14%** (rounded down to two decimal places) of the standard lifetime allowance at the time (£1 million/£1.75 million x 100).

Chandra has **42.86%** of his protected lifetime allowance (£1.4 million) available. This amounts to £600,040. Chandra is therefore not subject to a lifetime allowance charge as his crystallised benefits are £600,000.

Example 19 – Individual with FP and IP14 protection who takes benefits after 6 April 2014 while FP valid then loses FP and reverts to IP14

Darlene has already applied for fixed protection 2012, giving her a protected lifetime allowance of £1.8 million. She has not had any benefit crystallisation events and has benefits in both money purchase and final salary defined benefits arrangements. She applies for IP14 and has a relevant amount of £1.5 million. Her protected lifetime allowance is £1.5 million.

So long as Darlene's FP12 protection is valid it takes priority over her IP14 protection as it is more advantageous. Darlene will not therefore receive her IP14 certificate unless she loses FP12.

Darlene has not made any contributions to her money purchase arrangement since 5 April 2012. She has continued in active membership of her defined benefits scheme but, as Darlene has a substantial number of years of pensionable service and her pensionable salary has not been increased since 2011, her defined benefits pension rights increase by less than the relevant percentage so she does not have benefit accrual in the tax years 2012-2013 to 2015-2016.

On 31 December 2015, Darlene crystallises her money purchase rights. These were valued at £800,000 on 5 April 2014 but due to good investment decisions these have increased to £1.2 million by the time they crystallise. Darlene has used up **66.66%** of her FP12 protected lifetime allowance of £1.8 million. Her scheme administrator gives her a lifetime allowance statement showing this.

On 1 June 2016 Darlene receives a large salary increase from her employer which means she has benefit accrual and her fixed protection is lost. Her previous BCEs are not revisited.

Darlene notifies HMRC that she has lost her FP12 and is issued with her IP14 certificate showing that she now has a protected lifetime allowance of £1.5 million.

Darlene crystallises her defined benefits on 1 June 2017 when the standard lifetime allowance is £1.25 million. She receives a pension of £20,000 and a lump sum of £125,000. For lifetime allowance purposes these are valued at £525,000 (£20,000 x 20 + £125,000).

Darlene shows her scheme administrator the lifetime allowance statement for the previous benefit crystallisation events. So the final salary scheme administrator knows that she has **33.34%** (£500,100) of her £1.5 million protected lifetime allowance available. Darlene has exceeded her available lifetime allowance so has a lifetime allowance charge on the excess (£24,900). As 25% of her available protected lifetime allowance is £125,025 her entire lump sum is a pension commencement lump sum and under the tax rules this crystallises before her pension. So the excess is paid in the form of pension benefits and subject to the lifetime allowance charge at the rate of 25% giving a tax charge of (£6,225).

Example 20 – Individual with FP14 and IP14 protection who takes benefits after 6 April 2014 while FP14 valid then loses FP14 and reverts to IP14

Debbie has already applied for fixed protection 2014, giving her a protected lifetime allowance of £1.5 million. She has not had any benefit crystallisation events and has benefits in both money purchase and final salary defined benefits arrangements. She applies for IP14 and has a relevant amount of £1.4 million.

So long as Debbie's FP14 protection is valid it takes priority over her IP14 protection as it is more advantageous. Debbie will not therefore receive her IP14 certificate unless she loses FP14.

Debbie has not made any contributions to her money purchase arrangement since 5 April 2014. She has continued in active membership of her defined benefits scheme but, as Debbie has a substantial number of years of pensionable service and her pensionable salary has not been increased since 2014, her defined benefits pension rights increase by less than the relevant percentage so she does not have benefit accrual in the tax years 2014-15 and 2015-16.

On 31 December 2015, Debbie crystallises her money purchase rights. These were valued at £500,000 on 5 April 2014 but due to good investment decisions these have increased to £900,000 by the time they crystallise. Darlene has used up **60%** of her FP14 protected lifetime allowance of £1.8 million. Her scheme administrator gives her a lifetime allowance statement showing this.

On 1 June 2016 Debbie receives a large salary increase from her employer which means she has benefit accrual and her fixed protection is lost. Her previous BCEs are not revisited.

Debbie notifies HMRC that she has lost her FP14 and is issued with her IP14 certificate showing that she now has a protected lifetime allowance of £1.4 million.

Debbie crystallises her defined benefits on 1 June 2017 when the standard lifetime allowance is £1.25 million. She receives a pension of £25,000 and a lump sum of £150,000. For lifetime allowance purposes these are valued at £650,000 (£25,000 x 20 + £150,000).

Debbie shows her scheme administrator the lifetime allowance statement for the previous benefit crystallisation events. So the final salary scheme administrator knows that she has **40%** (£560,000 of her £1.4 million protected lifetime allowance available. Debbie has exceeded her available lifetime allowance so has a lifetime allowance charge on the excess (£90,000). As 25% of her available lifetime allowance is £140,000 her maximum lump sum payable as a pension commencement lump sum, which under the tax rules crystallises before her pension, is £140,000.

Debbie's pension commencement lump sum (£140,000) and £420,000 of her pension have used up all her available lifetime allowance. The lump sum is not paid until after Debbie's entitlement to her pension has arisen so the £10,000 that does not qualify as pension commencement lump sum is paid as a lifetime allowance excess lump sum. This is subject to the 55% lifetime allowance charge for lump sums giving a tax charge of £5,500. The remaining £80,000 excess over Debbie's protected lifetime allowance is paid in the form of pension benefits and subject to the lifetime allowance charge at the rate of 25% giving a tax charge of £20,000. Debbie's total lifetime allowance tax charge is therefore £25,500.

Chapter 6 - Additional information for scheme administrators

A member says they have IP14 and wants to take benefits relying on this protection. Do they have to provide any information? And is there any additional information I should ask them for?

[Regulation 11 Registered Pension Schemes (Provision of Information) Regulations 2006 – SI 2006/567 as amended]

The member is only required to provide you with the IP14 reference number received from HMRC if they tell you they want to take their benefits relying on IP14. You may wish to ask them also to give you a copy of their IP14 certificate for evidence of the value of their protected pension rights and enable you to provide the correct percentage of LTA used up on the LTA certificate you need to give them.

In addition, you should ask them

- to say whether they have had any previous BCEs. If they have had previous BCEs you should ask for copies of their lifetime allowance statements from those BCEs.
- if they are in receipt of a pre-6 April 2006 pension(s) or annuity/annuities from a scheme that is a registered pension scheme or would have been one had it not been opted out of registration. If the answer is yes, you should ask the member to tell you either the current annual rate of the pre-6 April 2006 pension(s) or annuity/annuities they are receiving or, if they have had any BCEs, the annual rate at which it was/they were payable immediately prior to the first BCE that occurred after 5 April 2006.
- to confirm that they do not have valid enhanced protection (EP), fixed protection (FP) or fixed protection 2014 (FP14). As these protections all take priority over IP14, if the member has one of them you need to carry out the lifetime allowance test in accordance with the rules applying to the protection concerned. If a member has EP, then there is no lifetime allowance charge due regardless of the amount of benefits taken. If the member has FP or FP14 then their lifetime allowance is £1.8 million or £1.5 million respectively.

A member wants to take their benefits in June 2014. They say they will be applying for IP14 as their total benefits are worth more than £1.25 million but the IP14 legislation has not been enacted. What should I do?

Scheme administrators have until 45 days after the quarter in which the lifetime allowance charge arises to report and pay the tax to HMRC (see RPSM12301300). Before the tax is due to be paid to HMRC the individual may receive their certificate and so be able to provide the administrator with the relevant details.

You will have to decide what you want to do as there is nothing in the tax rules specifically covering this situation. There are a number of options available which you may wish to consider.

Option 1: Member defers taking their benefits

You could suggest to the member that they postpone taking their benefits until they have received their IP14 certificate from HMRC. This will not always be possible however. For example, the scheme's rules may require benefits to be paid at a certain age or the BCE may be one of those which is triggered because the member has reached age 75, that is a BCE 5, 5A or 5B (see RPSM11102020)

Option 2: Member takes benefits up to £1.25 million standard LTA and defers taking the rest

You could suggest to the member that they take benefits up to the standard lifetime allowance and defer taking their remaining benefits until they have received their IP14 certificate from HMRC. This could be done where the member wishes to take drawdown pension for example. But this option may also not be possible for the sort of reasons referred to in Option 1 above.

Option 3: Assume member has no protection and test against the standard LTA of £1.25 million

A scheme administrator and the member have joint and several liability for the lifetime allowance charge. However, your liability to account for the charge as scheme administrator arises before the member's does. Where a lifetime allowance charge applies, you have to account for the tax within 45 days of the end of the quarter in which the relevant BCE(s) occurred. The member liable to the charge has to declare it on a Self-Assessment tax return for the tax year in which the BCE occurred. A Self Assessment return need not be submitted until the 31 January after the end of the tax year to which it relates. As the BCE occurs in June 2014 this means that the member has until 31 January 2016 to declare the charge.

As the member has not yet got IP14 and the legislation hasn't been enacted yet, you may therefore decide to deduct a lifetime allowance charge based on the £1.25 million standard lifetime allowance. The lifetime allowance charge should be at 25% of the excess if the member decides to take the maximum PCLS of £312,500 and the rest as pension or 55% if the member takes all or part of the excess as a lifetime allowance excess lump sum (LAELS). See RPSM11105350 for more guidance on which rate (25% or 55%) of lifetime allowance charge you should deduct.

You would account for the lifetime allowance charge in the normal way on an Accounting for Tax return (AFT) for the quarter ending 30 June 2014 - that is, it must be reported to HMRC and the tax paid by 14 August 2014.

If the member subsequently successfully applies for IP14 they must provide you with the reference number received from HMRC. You may also wish to ask them to give you a copy of their IP14 certificate, and confirm that they have had no other BCEs since 5 April 2014.

You will now be able to work out how much available lifetime allowance the member had when they crystallised their benefits from your scheme and how much of the amount of the lifetime allowance charge which you have deducted was not in fact due. You would then submit an amended AFT for the quarter ending 30 June 2014 to obtain repayment of the tax (plus any interest due). See RPSM11105360 for more information on how you should do this. This page also provides guidance on how the refund of the tax and interest should be used to provide further benefits.

These further benefits can include a further pension commencement lump sum (as the member has IP14, their maximum pension commencement lump sum will be greater than £312,500). However, you need to be aware that if you paid a LAELS and the member subsequently successfully applies for IP14, some or all of the lump sum originally treated as a LAELS may become an unauthorised payment. This will occur if, as a result of the member being entitled to a higher protected lifetime allowance under IP14, the member now has available lifetime allowance and therefore the lump sum paid to the member no longer meets the conditions to be a LAELS and it can't be paid as another authorised lump sum. If the amount of the lump sum paid as a lifetime allowance excess lump sum exceeds the maximum payable as a further pension commencement lump sum (see RPSM09104185 for more detail) then it will be an unauthorised member payment and taxed accordingly. See RPSM04101000 for more detail on the unauthorised payment tax charges.

Option 4: Assume an IP14 certificate will be issued and pay without deducting an LTA charge.

You may decide to do this because for example the member has confirmed that your scheme is the only one in which they have pension rights (that is they are not entitled to benefits under any other registered pension schemes or as a relieved member of a relieved non-UK pension scheme).

You may decide to take this risk where the member has already submitted an online application for IP14 and received confirmation of receipt of the application. As you have until 45 days after the quarter in which the lifetime allowance charge arises to pay the tax to HMRC (see RPSM12301300), you may take the view that the member is likely to receive their IP14 certificate and so be able to provide you with the relevant details before the tax is due to be paid to HMRC.

Should you choose not to deduct any lifetime allowance charge on benefits crystallising over the standard lifetime allowance taking account of the value of any previous BCEs and/or any pensions in payment since before 6 April 2006 and a lifetime allowance charge is later found to be due, you are still jointly and severally liable to the tax. Your tax liability would have arisen in the quarter in which the benefits crystallise. So if you opt for this course of action you must do so in the knowledge that there is a risk that tax is due and, consequently, you may be liable to tax, interest and penalties. In these particular circumstances, HMRC is unlikely to accept that liability to any tax, interest and penalties should be discharged through the 'good faith' provisions.

Will crystallising benefits while relying on IP14 give rise to any reportable events? [Regulation. 3 Registered Pension Schemes (Provision of Information) Regulation 2006 – SI 2006/567as amended]

Yes in certain circumstances.

There may be a reportable event 6 if the BCE (either alone or combined with other BCEs for the member) exceeds the standard LTA and the member has relied on IP14 to reduce or eliminate the LTA charge. For more detail on what needs to be reported see RPSM12301070.

When a member crystallises benefits while relying on IP14 should his/her LTA statement show the amount of LTA used up by their BCE(s) as a percentage of the standard LTA or of their personalised LTA under IP14?

The statement should show the value of the crystallised rights as a percentage of the member's personalised LTA, not the standard LTA.

So if say a member has IP14 and a personalised LTA of £1,429,546 and crystallised benefits with a value of £628,914 for LTA purposes, the LTA certificate should show the percentage of LTA used up as 43.99% (628,914/1,429,546 x 100, rounded down to 2 decimal places).

In order to do this, you should ask the member to give you a copy of their certificate so you can be certain of the correct amount of their personalised LTA.

How does IP14 interact with lifetime allowance enhancement factors other than that for primary protection?

For more information on these lifetime allowance enhancement factors see RPSM11101070.

A person with IP14 can still apply for one or more of the available lifetime allowance enhancement factors (apart from primary protection) in the normal way.

If an application for such a lifetime allowance enhancement factor is made on or after 6 April 2014, the factor will be calculated by reference to the member's protected lifetime allowance where this is higher than the standard lifetime allowance that would otherwise be used, unless they have already applied for a different lifetime allowance factor before that date. In such cases, the value of the aggregate factor should be calculated along the lines set out at RPSM11101100.