PRUDENTIAL

# Questions and Answers

## Important information about pensions allowances

**The amount of pension tax relief you receive is restricted. Since 6 April 2016 further restrictions may affect your entitlement and you may need to take action, depending upon your financial circumstances.**

**Please read our questions and answers and speak to a financial adviser if you feel you are affected by these changes.**

### What is the annual allowance?

The annual allowance limits the total amount of tax-relieved pension savings which can be made by you, or on your behalf, each year.

For money purchase arrangements (including personal pensions, group personal pensions, group money purchase plans, executive pension plans and AVC schemes) the amount of annual allowance you use is determined by adding together the total contributions paid by you, or on your behalf, over the tax year.

For defined benefit arrangements (such as final salary or career average schemes) the amount of annual allowance you use is determined by working out the growth in the value of your pension scheme benefits over the tax year.

You can find out the value of your increase in pensions savings for each of the last three years by asking your scheme for a Pension Savings Statement.

The standard annual allowance is £40,000 for the 6 April 2017 to 5 April 2018 tax year.

### Can I carry forward any unused allowance from previous years?

You are able to carry forward any unused annual allowance from the three previous tax years, provided you were a member of a UK-registered pension scheme during this period.

Special rules applied to the 2015/2016 tax year.

### If my income is high, does my annual allowance change?

Since 6 April 2016, if your income exceeds certain thresholds in any tax year, your annual allowance for pension savings in that tax year will be reduced.

You may be subject to a gradual tapering of your annual allowance if your total income (including savings and investment income), which is subject to tax, is more than £110,000 in any tax year. The maximum reduction for those with the highest incomes will be £30,000, leaving a minimum annual allowance of £10,000 in a tax year.

Regardless of whether you are subject to the tapered annual allowance or not, you are normally able to carry forward unused allowance from the last three years to increase your allowance in any tax year.

For more information please visit **www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance**.

## If I have already taken pension benefits, will this affect tax relief on my future pensions savings?

Yes, in some circumstances. If you have taken benefits flexibly on, or after, 6 April 2015, you will be subject to the Money Purchase Annual Allowance (MPAA) from that point.

Your pension scheme, or provider, paying these benefits will have informed you if you have taken benefits flexibly and will be subject to the MPAA. Examples of drawing benefits flexibly include: taking income from flexi-access drawdown; or taking a cash lump sum direct from your pension plan (Uncrystallised Funds Pensions Lump Sum).

Please note that the MPAA will not affect you if you have taken final salary or career average benefits only. It also does not apply to any final salary or career average benefits that you may build up in the future.

If you are subject to the MPAA, you will incur a tax charge on any subsequent contributions to money purchase pensions which exceed the MPAA in a tax year. This is based on both contributions made by you, and on your behalf. Unlike the annual allowance there is no facility to carry forward any unused MPAA.

In any tax year when you exceed the MPAA, your annual allowance for other types of tax-relieved pension saving, such as defined benefits, is reduced by the MPAA.

## The Money Purchase Annual Allowance for 2017/2018 tax year

In March the Government announced that it plans to reduce the Money Purchase Annual Allowance from £10,000 to £4,000 for the 2017/2018 tax year, although this has not yet been confirmed.

If this change takes place, the amount that may be paid by you, your employer or any others on your behalf, into all of your money purchase pension plans and still benefit from full tax relief, will be limited to £4,000 for the current tax year. If this limit is exceeded, you will have to pay a tax charge on the excess.

## If I am subject to both the MPAA and the tapered annual allowance, how will I be affected?

If you are subject to both the MPAA and the tapered annual allowance your Annual Allowance for other types of tax-relieved pension saving, such as defined benefits will be subject to a gradual tapering. The amount of the tapered reduction will depend on the amount of your total income and potentially could reduce your allowance for other types of pension saving where the MPAA is exceeded.

## How much in pension savings can I build up over my lifetime?

There is a limit to the amount of benefits you can take from your tax-relieved pension savings before you incur a tax charge. This limit is known as the standard Lifetime Allowance and applies to the total of all pension benefits including any existing entitlement to a defined benefit schemes, but excluding State Pension.

The standard Lifetime Allowance for the 2017/2018 tax year is £1m. In future this is expected to change each year in line with any increases in the Consumer Prices Index (CPI).

Whenever benefits are taken from your pension savings, you use up some of your Lifetime Allowance. This is known as a Benefit Crystallisation Event (BCE).

If the benefits you take exceed your available lifetime allowance at the time of the BCE, a tax charge will be due on the excess.

## Pensions Protection 2016

As a result of the change to the Lifetime Allowance, the Government has introduced additional forms of pension protection (Individual Protection 2016 and Fixed Protection 2016) for those with pension funds which exceed £1m on 5 April 2016. Any existing protection remains valid.

### Individual Protection 2016

It is possible to apply for Individual Protection 2016 if the value of pension savings is over £1m on 5 April 2016. Individual Protection 2016 allows further pension savings or an increase in the value of an entitlement to a defined benefit pension after 6 April 2016, without losing protection.

Individual Protection 2016 is available if there is already Enhanced Protection, Fixed Protection 2012, Fixed Protection 2014 or Fixed Protection 2016 in place. However, it is not possible to hold both Primary Protection and Individual Protection 2016.

Once Individual Protection 2016 is in place, the Individual Lifetime Allowance is fixed at the value of pension savings at 5 April 2016, subject to a maximum of £1.25m. A Lifetime Allowance tax charge will be due on benefits in excess of this limit.

Where Individual Protection is held with another lifetime allowance protection, the other protection takes precedence. The Individual Protection remains dormant and only becomes valid where the previous protection ceases to be valid.

Note: the facility, to apply for Individual Protection 2014 ceased on 5 April 2017.

To decide whether this is suitable, use the HMRC web tool: **www.hmrc.gov.uk/tools/lifetimeallowance/index.htm**.

### Fixed Protection 2016

It is possible to apply for Fixed Protection 2016 whether benefits exceed £1m or not. Unlike Individual Protection 2016, Fixed Protection 2016 is only available provided the following forms of pension protection are not in place:

- Enhanced Protection
- Primary Protection
- Fixed Protection 2012
- Fixed Protection 2014

For Fixed Protection 2016 to remain valid, there can be no pension savings or defined benefit accruing after 5 April 2016.

Once Fixed Protection 2016 is in place the Lifetime Allowance is fixed at £1.25m.

### Pension protection applications

You will need to apply for protection with HMRC before taking benefits otherwise they will be assessed against the reduced £1m limit.

You can apply online for pension protection through the Government Gateway. You will need to let your scheme know your Protection Registration Number. You need to do this before you draw your benefits, otherwise the standard Lifetime Allowance will be used by your scheme.

## More information about pension protection

Tax rules require careful consideration and you should speak to a financial adviser. To find out more about pension protection by visiting the Government's website at:

**www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance**

For more information please visit the ***Pensions Advisory Service*** or ***HMRC*** websites.

The information in this document is based on our current understanding of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. The impact of taxation (and any tax reliefs) depends on individual circumstances.

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GENM282401 05/2017