



Tax controls and your LGPS benefits

In this leaflet we look at the HM Revenue and Customs (HMRC) rules that govern pension savings.

Where pension terms are used, they appear in ***bold italic*** type. These terms are defined at the back of this leaflet.

There are controls on the total amount of contributions you can make into all pension arrangements and receive tax relief, and on the pension savings you can have before you become subject to a tax charge. This is in addition to any tax due under the PAYE system on pension payments.

You can, if you wish, pay up to 100% of your taxable earnings in any tax year (or £3600 if greater) into any number of concurrent pension arrangements of your choice and be eligible for tax relief on the contributions.

There are two main allowances for pension savings – an annual allowance and a lifetime allowance. There are also protections for benefits earned up to 5 April 2006 if you are a high earner affected by the introduction of the lifetime allowance from 6 April 2006.

Most people will be able to save as much as they wish with full tax relief as their pension savings will be significantly less than the allowances.

Are there any limits on how much I can pay in contributions?

At the present time there is no overall limit on the amount of contributions you can pay, although there is a limit of £5,000 on the extra LGPS pension you can buy and the amount you can pay to the Scheme's ***additional voluntary contribution (AVC)*** arrangement is limited to 50% of your earnings. Although there is no overall limit on the amount of contributions you can pay to all schemes, tax relief will only be given on contributions up to a total of 100% of your taxable earnings.

What are the tax controls on my pension savings?

The annual and lifetime allowances cover any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS – but exclude the State pension.

Annual allowance

This is the amount by which the value of your pension benefits may increase in any one year (disregarding the value of any benefits in the year that they become payable) without you having to pay a tax charge. Years run from 1 April to 31 March.

The annual allowance is set by the Treasury and for 2008/2009 is £235,000.

The assessment covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS.

If you exceed the annual allowance in any year (other than the year that all your benefits become payable) you are responsible for reporting this to HMRC on your self-assessment tax return and for paying the annual allowance tax charge. Pension Services will be able to tell you how much the value of your LGPS benefits, including any **additional voluntary contribution (AVC)** arrangement you may have, has increased.

The annual allowance tax charge is 40% of any increase in benefits above the annual allowance. The tax charge will not apply if you have registered to have enhanced protection (see below) but only if you keep enhanced protection throughout the relevant tax year.

Lifetime allowance

The lifetime allowance is the total value of all pension benefits you can have without triggering an excess benefits tax charge. If the value of your pension benefits when you draw them (not including any state retirement pension, state pension credit or any spouse's, **civil partner's** or dependant's pension you may be entitled to) is more than the lifetime allowance, or more than any primary lifetime allowance protection or enhanced protection you may have (see below), you will have to pay tax on the excess benefits. **The lifetime allowance covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS.**

The lifetime allowance set by the Treasury for 2008/2009 is £1.65 million.

For pensions that start to be drawn on or after 6 April 2006, the capital value of those pension benefits is calculated by multiplying your pension by 20 and adding any lump sum you draw from the pension scheme – so, for example, an employee earning in excess of £143,500 per annum and with 40 years membership in the LGPS could be affected.

For pensions already in payment before 6 April 2006, the capital value of these is calculated by multiplying the current annual rate, including any pensions increase, by 25. Any lump sum already paid is ignored in the valuation.

When any LGPS benefit, or any other pension arrangement you may have, is put into payment you use up some of your lifetime allowance – so even if your pensions are small and will not be more than the lifetime allowance you should keep a record of any pensions you receive. If you have a pension in payment before 6 April 2006, this will be treated as having used up part of your lifetime allowance.

If your LGPS benefits are more than your lifetime allowance, or your primary lifetime allowance protection or enhanced protection (see below), you will have to pay tax on the excess. If excess benefits are paid as a pension the charge will be 25%, with income tax deducted on the ongoing pension payments; if the excess benefits are taken as a lump sum they will be taxed once only at 55%.

Primary lifetime allowance protection

Primary protection is aimed at protecting benefits earned up to 5 April 2006 for those high earners affected by the introduction of the lifetime allowance from 6 April 2006 i.e. those whose benefits at 5 April 2006 already had a capital value in excess of the 2006/2007 lifetime allowance of £1.5 million.

To work out whether your benefits at 5 April 2006 were more than the 2006/2007 lifetime allowance of £1.5million, you will need to add up the following

- a) for any LGPS pension benefits not in payment on 5 April 2006, multiply the annual pension built up to 5 April 2006 by 20 and add the lump sum;^{1 and 2}
- b) for any LGPS **AVCs** not in payment on 5 April 2006, add the fund value at 5 April 2006;¹
- c) for any benefits held in other pension schemes/arrangements not in payment on 5 April 2006, add the value as at 5 April 2006. You can obtain this from the administrators of that scheme/arrangement;
- d) for any pension benefits already in payment on 5 April 2006, multiply the annual rate in payment at 5 April 2006, including any pensions increase, by 25 (but ignore any lump sum already paid)

If the value of your pension benefits at 5 April 2006 was more than the 2006/2007 lifetime allowance of £1.5million, you can register for primary protection. This gives you an individual lifetime allowance based on how much your benefits at 5 April 2006 exceeded the value of the 2006/2007 standard lifetime allowance. Your individual lifetime allowance increases at the same rate as the standard lifetime allowance. So, if your benefits at 5 April 2006 exceeded the 2006/2007 standard lifetime allowance by 10%, your individual lifetime allowance will always be 10% higher than whatever the standard lifetime allowance is in future years.

If your pension rights are shared on divorce or dissolution of a **civil partnership** this will result in the individual lifetime allowance being reduced (or lost if it reduces to below the standard lifetime allowance).

Enhanced protection

You can register for enhanced protection (as well as primary protection) if the value of your pension benefits at 5 April 2006 was more than the 2006/2007 lifetime allowance of £1.5million. You can also register for enhanced protection if you believe the value of those benefits may in the future be more than the standard lifetime allowance or if you believe your pension benefits in any one year will increase by more than the annual allowance. Under enhanced protection you will not pay tax on benefits in excess of the lifetime allowance provided your benefits at 5 April 2006² do not increase after then

¹ Benefits under (a) or (b) will, if necessary, need to be restricted to ensure they are not more than the maximum benefits allowed under the Scheme rules at 5 April 2006.

² If the value of your benefits at 5 April 2006 were more than HMRC benefit limits at that date and you wish to elect for enhanced protection, you will have to give up the excess benefits (but the excess benefits given up could be re-instated if you lose or give up enhanced protection).

beyond certain limits (in general terms, by more than the greater of 5% per annum, the increase in the Retail Price Index or increases in your pensionable pay). If the limit is exceeded you will pay tax on the excess. You will lose enhanced protection if you pay contributions into a money purchase pension arrangement (e.g. pay into the LGPS in house **AVC** facility³) or if you start a new pension arrangement, or if you transfer your LGPS benefits to another defined benefit pension scheme. You can also voluntarily give up enhanced protection by giving notice that you no longer wish to keep it.

If you lose enhanced protection you must notify HMRC within 90 days. Failure to do so could result in a fine of up to £30,000.

Making an election for protection

You have to register with HMRC by 5 April 2009 if you wish to obtain primary and/or enhanced protection. The relevant forms are available at:

<http://www.hmrc.gov.uk/pensionschemes/protection.htm>

If you are intending to retire before 6 April 2009 and are considering making an election for primary or enhanced protection you may wish to wait until just before retirement before deciding whether or not to apply. That way, if it turns out that primary rather than enhanced protection is best for you, delaying a decision would be to your advantage as it would mean you would not have to surrender any excess pension rights at 5 April 2006².

You should seek independent financial advice before deciding whether (and when) to apply for primary or enhanced protection.

Transitional Protection: Lump Sums

When you retire you will, provided you have membership in the LGPS before 1 April 2008, be entitled to an automatic lump sum from the LGPS, in addition to your pension. There are two types of lump sum protection available. These relate to members who, at 5 April 2006, either:

- had built up a lump sum of £375,000 or more and the member has applied for primary and/or enhanced protection, or
- had built up a lump sum that was more than 25% of the value of any pension rights not in payment at that time.

It is expected that very few (if any) LGPS members will have built up lump sums that meet either of these limits. Information on the protection can be found on the HMRC website:

<http://www.hmrc.gov.uk/manuals/rpsmmanual/RPSM03201060.htm>

³ You will not lose enhanced protection if you are paying **AVCs** at 5 April 2006 purely for extra life cover and carry on doing so after that date provided the terms are not varied significantly from those that applied under the policy at 5 April 2006 so as to increase the level of life cover or extend the period during which such benefits are payable e.g. you do not adjust the premiums to purchase increased life cover.

More information

For more information or if you have a problem or question about your LGPS membership or benefits, please contact:

Pension Services
Royal Borough of Kingston
Guildhall 2
Kingston upon Thames
KT1 1EU
Fax 020 8547 5611

www.kingston.gov.uk/pensions

pensions@rbk.kingston.gov.uk

You can speak to us or e-mail us as follows, according to the first letter of your surname:

1st Letter of your Surname	Pension Services Team Member	Telephone	<u>E-mail</u>
A to G	Gary Stephenson	020 8547 5615	Gary.Stephenson@rbk.kingston.gov.uk
H to R	Kathryn Derbyshire	020 8547 5610	Kathryn.Derbyshire@rbk.kingston.gov.uk
S to Z	Geraldine Wells	020 8547 5722	Geraldine.Wells@rbk.kingston.gov.uk

The national web site for members of the LGPS can be found at www.lgps.org.uk

You can find out about what you can do if you are not happy about a decision made about your LGPS pension position from the leaflet **Help with Pension Problems**.

Disclaimer

The information in this leaflet applies to individuals who were contributing members of the Local Government Pension Scheme on 1 April 2008 or who have since joined. This leaflet was up-to-date at the time of publication in September 2008. This leaflet is for general use and cannot cover every personal circumstance nor does it cover specific protected rights that apply to a very limited number of employees. In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this leaflet does not confer any contractual or statutory rights and is provided for information purposes only.

Some terms we use

Additional Voluntary Contributions (AVCs)

These are extra payments to increase your future benefits. All local government pension funds have an in-house AVC scheme where you can invest money through an AVC provider, often an insurance company or building society. AVCs are deducted directly from your pay and attract tax relief.

Civil Partnership

A Civil Partnership is a relationship between two people of the same sex (civil partners) which is formed when they register as civil partners of each other.

Employees in England and Wales – September 2008