LOCAL GOVERNMENT PENSION SCHEME REGULATIONS
1 April 2008

Employees Scheme Guide - 10

TAX CONTROLS AND YOUR LGPS BENEFITS

Pensions Section,
Gloucestershire County Council,
Shire Hall, Gloucester GL1 2TG
Telephone: (01452) 426677
Fax: (01452) 425862
Email: pensions@gloucestershire.gov.uk
website: www.gloucestershire.gov.uk/pensions

Gloucestershire
COUNTY COUNCIL

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 end 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 your pension once it is in payment.

You can, if you wish, pay up to 100% of your UK taxable earnings in any tax year into any number of concurrent pension arrangements of your choice (or, if greater, £3,600 to a "tax relief at source" arrangement, such as a personal pension or stakeholder pension scheme) 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 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 ***pay***. 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?

There are two controls – the annual allowance and the lifetime allowance.

Annual allowance

This is the amount by which the value of your pension benefits may increase in any one year without you having to pay a tax charge. For the LGPS, the pension savings year runs from 1 April to 31 March and is called the pension input period.

The annual allowance for 2012/2013 is £50,000.

Generally speaking, the assessment covers any pension benefits you may have in all tax-registered pension arrangements where you have been an active member of the scheme during the tax year i.e. you have paid contributions during the tax year (or your employer has paid contributions on your behalf).

You would only be subject to an annual allowance tax charge if the value of your pension savings for a tax year increase by more than £50,000. However, a three year carry forward rule allows you to carry forward unused annual allowance from the last three tax years. This means that even if the value of your pension savings increase by more than £50,000 in a year you may not be liable to the annual allowance tax charge. For example, if the value of your pension savings for a tax year increase by £60,000 (i.e. by £10,000 more than the annual allowance) but in the three previous years had increased by £35,000, £38,000 and £40,000, then the amount by which each of these previous years fell short of £50,000 would more than offset the £10,000 excess pension saving in the current year. There would be no annual allowance tax charge to pay in this case. To carry forward unused annual allowance from an earlier year you must have been a member of a tax registered pension scheme in that year.

Most people will not be affected by the annual allowance tax charge because the value of their pension saving will not increase in a tax year by more than £50,000 or, if it does, they are likely to have unused allowance from previous tax years that can be carried forward.

If, however, you are affected you will be liable to a tax charge (at your marginal rate) on the amount by which the value of your pension savings for the tax year, less any unused allowance from the previous three years, exceeds £50,000.

Working out whether you are affected by the annual allowance is quite complex, but this should help you work out your general position.

In general terms, the increase in the value of your pension savings in the LGPS in a year is calculated by working out the value of your benefits immediately before the start of the input period (1 April), increasing them by inflation, and comparing them with the value of your benefits at the end of the input period (31 March). In a defined benefit scheme like the LGPS the value of your benefits is calculated by multiplying the amount of your pension by 16 and adding any lump sum you are automatically entitled to from the pension scheme. If the difference between:

a) the value of your benefits immediately before the start of the input period (the opening value) and
b) the value of your benefits at the end of the input period (the closing value) plus any contributions you have paid into the scheme's ***Additional Voluntary Contribution (AVC)*** arrangement in the year or that you and your employer have paid into the scheme's Shared Cost AVC arrangement in the year

is more than £50,000, you may be liable to a tax charge.

The method of valuing benefits in other schemes may be different to the method used in the LGPS.

Please note:
If you have elected to transfer pension rights from another scheme into the LGPS, the value of the benefits relating to the transfer does not count towards your pension savings in the LGPS in the year in which the transfer payment is received.

If your pension benefits in the LGPS are reduced following a Pension Sharing Order (issued as a result of a divorce or dissolution of a civil partnership) then, for the purposes of calculating the value of your pension savings in the LGPS, the reduction in your benefits is ignored in the year that the Pension Sharing Order is applied to your benefits.

If you retire on grounds of permanent ill health and an independent registered medical practitioner certifies that you are suffering from ill-health which makes it unlikely that you will be able (otherwise than to an insignificant extent) to undertake gainful work (in any capacity) before reaching State pension age, there is no annual allowance tax charge on the ill health retirement benefits.

It is important to note that the assessment covers any pension benefits you may have where you have been an active member during the tax year, not just benefits in the LGPS.

The Pensions Section will inform you if your LGPS pension savings in a pension input period (1 April to 31 March) are more than the annual allowance of £50,000 not later that 6 October following the end of the relevant tax year. For 2011/12, that date is extended from October 2012 to October 2013.

If you exceed the annual allowance in any year you are responsible for reporting this to HMRC on your self-assessment tax return. The Pensions Section will be able to tell you how much the value of your LGPS benefits have increased during an input period, plus the amount of any ***Additional Voluntary Contributions (AVCs)*** you may have paid during the input period,.

If you have an annual allowance tax charge that is more than £2,000 and your pension savings in the LGPS alone have increased in the tax year by more than £50,000 you may be able to opt for the LGPS to pay some or all of the tax charge on your behalf. The tax charge would then be recovered from your pension benefits. If you want the LGPS to pay some or all of an annual allowance charge for 2011/12 on your behalf you must notify The Pensions Section of this no later than 31 December 2013. For later tax years, you must give your notification no later than 31 July in the year following the end of the tax year to which the annual allowance charge relates. However, if you are retiring and become entitled to **all** of your benefits from the LGPS and you want the LGPS to pay some or all of the tax charge on your behalf from your benefits, you must tell The Pensions Section before you become entitled to those benefits. The Pensions Section will be able to tell you more about this and the time limits that apply.

From 6 April 2011 the general exemption from the annual allowance for the relatively small number of scheme members who applied to HMRC for, and received, an enhanced protection certificate will cease.

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 for 2011/2012 was £1.8million and reduced to £1.5 million for 2012/13.

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.

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 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%.

There are protections called primary lifetime allowance or enhanced protection for benefits earned up to 5 April 2006. To have this protection you must have registered for it with HM Revenue and Customs by 5 April 2009. If you already have primary or enhanced protection you will be unaffected by the reduction in the lifetime allowance from 2012/13.

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.

If the value of your pension benefits at 5 April 2006 was more than the 2006/2007 lifetime allowance of £1.5million and you have registered for primary protection, you have 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 could 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 could also register for enhanced protection if you believed the value of those benefits might in the future be more than the standard lifetime allowance or if you believed your pension benefits in any one year would 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 retirement do not exceed the value of your benefits at 5 April 2006 as increased after then, in general terms, by the greater of 5% per annum, the increase in the cost of living 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 arranged ***AVC*** facility[1]) 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 £3,000.

From 6 April 2011 the exemption from the annual allowance for the relatively small number of scheme members who applied to HMRC for, and received, an enhanced protection certificate has ceased.

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:

---

[1] 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.

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

Fixed Protection

Because the lifetime allowance reduced to £1.5 million in 2012/13 there is a new form of protection called fixed protection. With fixed protection your lifetime allowance is fixed at £1.8 million rather than the new standard lifetime allowance of £1.5 million. However, if in the future the standard lifetime allowance rises to be more than £1.8 million your lifetime allowance will then be the higher standard lifetime allowance.

The maximum tax free lump sum you can take on retirement is the lesser of:

- 25% of the capital value of your LGPS benefits, or
- 25% of the lifetime allowance which, for those with fixed protection, is £450,000 (i.e. 25% of your lifetime allowance of £1.8 million) less the value of any other pension rights you have in payment.

You will lose fixed protection if you start a new pension arrangement, other than to accept a transfer of existing pension rights, or if your benefits increase by more than the cost of living increases, or if you pay contributions into a money purchase pension arrangement other than to a life assurance policy providing death benefits that started before 6 April 2006. You will also be subject to restrictions on where and how you can transfer benefits.

To have fixed protection you must have applied to HM Revenue & Customs (HMRC) in their prescribed form on or before 5 April 2012.

More information

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

The Pensions Section,
Gloucestershire County Council,
Shire Hall
Westgate Street,
Gloucester, GL1 2TG.

Pension helpline phone number: 01452 426677
e-mail: pensions@gloucestershire.gov.uk
website: www.gloucestershire.gov.uk/pensions

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 is for employees in England and Wales and reflects the provisions of the LGPS and overriding legislation at the time of publication in October 2012. The Government may make changes to overriding legislation and, after consultation with interested parties, may make changes in the future to the LGPS. **Changes to the LGPS are planned for 2014**, for details see the national LGPS web site at www.lgps.org.uk

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. You can also pay AVCs to provide additional life cover.

All local government pension funds have an AVC arrangement in which 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.

Pay

The pay on which you normally pay pension contributions is your normal salary or wages plus any shift allowance, bonuses, contractual overtime, Maternity Pay, Paternity Pay, Adoption Pay and any other taxable benefit specified in your contract as being pensionable.
You do not pay contributions on any non-contractual overtime, travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, any award of compensation (other than payment representing arrears of pay) made for the purpose of achieving equal pay nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.