XPS Administration

Fact sheet

Retirement tax rules

June 2019

HMRC rules when taking retirement benefits

What action do I need to take?

- **If your pension savings go over your annual allowance in the year you retire and you have to pay a tax charge, decide how you will pay it.**
- **All members must fill in a lifetime allowance declaration when they take retirement benefits. We will send you a lifetime allowance declaration and you must return it before we can pay your benefits.**

This fact sheet explains how current tax rules will affect you when you take retirement benefits from this scheme. We explain some of the words used in this fact sheet on the next page.

Your annual allowance

Everyone has a limit on the pension savings they (or someone on their behalf) can make to UK-registered pension schemes, in any tax year, that can benefit from tax relief. This is known as your annual allowance. If your pension savings in any tax year (including the year you retire) go over your annual allowance, you may have to pay a tax charge (known as the annual allowance charge). If the charge is more than £2,000, you can ask whether your pension scheme can pay it before you take your retirement benefits. If it is possible, and you meet certain conditions, your benefits will be reduced.

The standard annual allowance is currently £40,000. It has been at this level since 6 April 2014, although special rules applied for the 2015/2016 tax year when the Government changed how pension savings are measured.

If your total income (including pension contributions) is more than £150,000, your annual allowance for all your pension savings will reduce on a sliding scale. This will drop down to £10,000 if your total income is more than £210,000. This is known as the tapered annual allowance and you can find more information on the GOV.UK website. (There is a link at the end of this fact sheet.)

If you take any savings you have built up in any defined contribution (money purchase) arrangement as flexible cash or flexible income, any new defined contribution pension savings you make are limited afterwards. This is known as the money purchase annual allowance. It is currently set at £4,000 in each tax year and forms part of your overall allowance for all pension savings. You can find more details in the Pension Flexibilities fact sheet. If you think this may affect you, please ask for more information.

The lifetime allowance

Everyone has an ‘allowance’ of retirement and death benefits they can take from UK pension schemes that can benefit from tax relief. This is called the ‘lifetime allowance’. From 6 April 2019 the standard lifetime allowance increases from £1,030,000 to £1,055,000, and in future, it will increase each tax year in line with inflation.

That is the equivalent of total pensions of between £42,200 and £52,750 a year if your benefits are entirely from defined benefit (for example, final salary) arrangements, or funds totalling £1,055,000 if all your pension savings are in defined contribution (money purchase) arrangements. We may pay benefits above this value but this may lead to an extra tax charge, called a lifetime allowance charge.

Is the lifetime allowance the same for everybody?

Certain people are entitled to a higher lifetime allowance if they have applied to protect their benefits above the lifetime allowance at times when the tax rules have changed. There are also other limited circumstances where people have a higher lifetime allowance. If any of these circumstances apply to you, when you retire you will need to provide either a copy of your HMRC certificate confirming the type and level of your protection, or if you applied for it on or after 6 April 2016, an HMRC protection reference number.

How will the lifetime allowance affect me when I take my retirement benefits?

While most members’ total pension savings will not be more than the lifetime allowance, the trustees of company schemes must work out whether an extra tax charge is due before paying

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your benefits. You must make a lifetime allowance declaration confirming whether the pension savings you have taken so far (including the benefits taken from this scheme) are more than the current lifetime allowance.

How can I work out how much of my lifetime allowance I've used?

You will need to consider all pensions that you are currently receiving and any other pension savings that you are planning to take at the same time as those in this scheme. Before we pay benefits from this scheme, we will send you a calculation sheet with notes to help you work out what your total benefits are worth and whether they are more than your remaining lifetime allowance. Generally speaking, if you have never earned more than £50,000 a year, it is unlikely that your total pension savings will be more than the lifetime allowance.

Tax-free cash

The amount of tax-free cash that you can have when you take your retirement benefits depends on the rules of your particular scheme. This will not be more than the maximum allowed under HMRC rules, which in most cases is 25% of the value of the benefits you take. If you're taking tax-free cash linked to a pension or annuity, the payment can only be tax-free if it is paid at the same time as you start to take your pension or annuity.

Small lump sums

If your benefits in the scheme are valued at less than £10,000, it may be possible to receive a one-off cash lump sum without looking at the benefits you have in other schemes. We will let you know if this applies to you.

Trivial lump sums from a defined benefit arrangement

If your benefits are from a defined benefit (for example, final salary) arrangement and are small, you may be able to receive the whole amount as a single one-off cash lump sum, as long as you meet all the scheme's and HMRC's conditions for this type of payment (HMRC call these 'trivial' lump sums).

Typically, you could qualify if the total value of your pension savings in all your pension schemes, including any defined contribution (money purchase) arrangements, are less than £30,000, you are over age 55 and you meet any scheme conditions for trivial lump sums. (But all trivial lump sums you receive from this and your other pension schemes must be paid within a 12-month period.)

The limit of £30,000 is equal to total pensions of between £1,200 and £1,500 a year if your benefits are entirely from defined benefit (for example, final salary) arrangements. If some of your pension savings are in defined contribution (money purchase) arrangements, it is the fund value that counts toward the £30,000 limit.

Generally, if you have not started to take your benefits, 25% of the trivial lump sum would be tax-free and you would pay income tax on the rest, if you are a taxpayer. Pension savings in a defined contribution (money purchase) arrangement cannot be included in the trivial lump sum payment, so you will need to select another benefit option for these funds.

This fact sheet provides general information only and you should not rely on it as advice on your specific circumstances.

You can find more information about the lifetime allowance and the annual allowance in HMRC's guidance to individuals on the GOV.UK website.

www.gov.uk/tax-on-your-private-pension

www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance

Explanation of terms used in this fact sheet

Annual allowance
The overall limit of defined benefit and defined contribution pension savings that can be made each tax year to all your schemes before you may have to pay a tax charge. (This is known as the **annual allowance charge**.) The standard annual allowance (currently £40,000) applies unless you have a tapered annual allowance.

Annuity
An annuity is another word for an income (or pension) paid from an insurance company.

Defined benefit (for example, final salary) arrangement
A scheme or section of a scheme where your benefits are worked out using a formula which usually involves your salary in the years before you retire and your length of service.

Defined contribution (money purchase) arrangement
A scheme or section of a scheme where you have your own individual 'pot' of money which is used to provide benefits.

Defined contribution pension savings
Savings made by you or on your behalf to a defined contribution (money purchase) arrangement.

Flexible cash and flexible income
New options that a scheme or pension provider can offer members when they take their benefits. For more details, see the Pension Flexibilities factsheet.

Lifetime allowance
The maximum value of benefits that can generally be taken from all schemes without having to pay a lifetime allowance charge.

Lifetime allowance charge
A charge that applies to the part of your benefits that is above your lifetime allowance. Lump sums are taxed at 55% and pensions at 25% (on top of the PAYE tax on pension income).

Lifetime allowance declaration
A form you must fill in before we can pay your benefits. The form asks you to make a declaration confirming whether or not the total value of your benefits you have taken so far is more than the lifetime allowance.

Money purchase annual allowance
The part of your overall annual allowance you can use for any new defined contribution pension savings you make after taking flexible cash or flexible income from any scheme (currently £4,000).

Tapered annual allowance
A lower overall annual allowance which applies if your total income (including pension contributions) is more than £150,000. It reduces on a sliding scale down to £10,000 if your total income is more than £210,000.