

Pensions – tax charges on any excess over the Lifetime Allowance and the Annual Allowance, and on unauthorised payments

If you had Enhanced Protection throughout 2007-08, the 'Lifetime Allowance Excess' tax charge does not apply to you. Do not complete boxes 5, 6 or 7. But if you lost Enhanced Protection during 2007-08, you may be liable for a Lifetime Allowance Excess tax charge on benefits first taken on or after that date. For more details about loss of Enhanced Protection, see the Registered Pension Schemes Manual, from page RPSM03104060, at www.hmrc.gov.uk

Lifetime Allowance Excess Tax Charge – boxes 5, 6 and 7

The Lifetime Allowance Excess tax charge applies if you:

- became entitled to some or all of your benefits from registered pension schemes during 2007-08, or
- have reached age 75 in 2007-08 and have not taken any benefits from a pension arrangement you have in a UK registered pension scheme, or have an unsecured pension fund (income drawdown) which started on or after 6 April 2006, not all of which has, by that time, been used to secure a pension or annuity, or
- have received an increase to a scheme pension which your scheme has advised you has used up a part of your Lifetime Allowance, or
- have transferred pension rights in a registered pension scheme to a qualifying recognised overseas pension scheme

and the value of those benefits (together with the value of earlier benefits, if you have had any) was more than your Lifetime Allowance.

What is your Lifetime Allowance?

Your Lifetime Allowance for 2007-08 will be the 'standard Lifetime Allowance' of £1,600,000, unless you have been told you have a higher Lifetime Allowance. A higher Lifetime Allowance means no Lifetime Allowance Excess tax charge may be due even if the value of the benefits you have taken is more than £1,600,000. If you have told us that you intend to rely on a higher Lifetime Allowance, we will have sent you a certificate showing a factor. This factor is used to raise your Lifetime Allowance above the standard Lifetime Allowance. For example, a factor of 0.5 means your Lifetime Allowance is always 150% of the standard Lifetime Allowance for the tax year. In 2007-08, your higher Lifetime Allowance would be £2,400,000.

Your lifetime allowance may be reduced if you took benefits in 2007-08 as authorised payments from your registered pension scheme before the age of 50 and these benefits were not paid because of ill-health. A reduction will not be applied to benefits from employers' schemes for police officers, firefighters and members of the armed forces – see the Registered Pension Schemes Manual, from page RPSM03106080.

Who pays the tax charge?

You and the scheme administrator are liable to pay the Lifetime Allowance Excess tax charge. If you exceeded your available Lifetime Allowance when taking benefits during 2007-08, the scheme administrator should have paid the tax charge and let you know of this. You are still liable for the whole amount. But you can have a credit for any amount paid by the scheme administrator.

How do you know if you have exceeded your Lifetime Allowance?

You should be able to tell from statements sent to you, in respect of benefits you first received from UK registered pension schemes after 6 April 2006, how much Lifetime Allowance you have used up when taking those benefits. You should add up the percentages shown on each statement to find the total percentage you have used.

You should also include the value of any pensions in payment which started before 6 April 2006. This will be 25 times the annual rate of pension on the first occasion you took other benefits on or after 6 April 2006 and is regarded as using up a percentage of the Lifetime Allowance in force at that time. You will not hold a statement for this, but your scheme may have advised you at the time. Lump sums paid before 6 April 2006 do not normally use up Lifetime Allowance. But if a lump sum was paid and you elected on or after 27 July 2004 to defer payment of the associated pension, which is not paid until after 5 April 2006 but has come into payment after that date, the earlier lump sum will use up Lifetime Allowance, though not itself be liable to an excess tax charge, once you take the associated pension. This is regarded as using up a percentage of Lifetime Allowance in force at 6 April 2006.

You may be liable to a tax charge in 2007-08 if:

- the total used percentage is in excess of 100% (or over your higher percentage if you have a certificate showing your higher Lifetime Allowance - see page 1), and
- all or part of the excess is made up of benefits first taken in 2007-08.

How do you find the monetary value of the excess?

You need to convert the excess percentage arising in 2007-08 to a monetary figure by multiplying the excess percentage by your Lifetime Allowance for 2007-08. For example, a total of 125% means that you have exceeded the standard Lifetime Allowance by 25%. Assuming the whole 25% relates to benefits taken for the first time in 2007-08 and you have the standard Lifetime Allowance, you multiply £1,600,000 by 25% to give £400,000, which is the amount of your excess in 2007-08.

You should only include the value of the excess for benefits which were taken for the first time in 2007-08. This might include, for example, the purchase of a lifetime annuity from an unsecured pension fund.

How you show the amount on your Tax Return depends on whether or not the excess benefits were taken as a lump sum.

Pension savings tax charges and taxable lump sums from overseas pension schemes

5

Value of benefits in excess of your available Lifetime Allowance, taken by you as a lump sum

If all, or any part, of the benefits which formed part of the excess over your available Lifetime Allowance, were taken as a lump sum, enter in box 5 the total of the lump sum or sums including any tax paid by the scheme administrator.

Do not include tax-free lump sums paid with a pension which are payable within your Lifetime Allowance. Include lump sums paid for serious ill-health, but only enter the part of amounts which exceed the Lifetime Allowance. And include lump sums expressly paid as lump sums because you exceeded your Lifetime Allowance.

You can find the figures on the statement of tax you received from your scheme. The statement will show how the tax was calculated.

6

Value of benefits in excess of your available Lifetime Allowance, not taken as a lump sum

If the benefits, or any part of the benefits which formed part of the excess over your available Lifetime Allowance, were not paid to you as a lump sum, enter in box 6 the value of those benefits.

You can find the figures on the statement of tax you received from your scheme. The statement will show how the tax was calculated.

If you have a scheme pension (typically, defined benefits where you have a specified form of pension, for example, one-sixtieth of pay for each year of service)

If your scheme pension (or an increase to a pension in payment) has been reduced to pay the tax charge, enter the excess percentage (as a monetary amount) before the reduction, but exclude the tax paid by the scheme administrator. If, exceptionally, your pension has not been reduced to pay the tax charge, then enter the excess percentage which will have been increased to include the tax paid by the scheme administrator.

If you have a lifetime annuity or unsecured pension (income drawdown) (from money purchase pension arrangements, that is, where you have built up a pension pot)

Enter the excess percentage (as a monetary amount), including the tax paid by the scheme administrator.

If you have reached age 75 in 2007-08 and have become subject to the tax charge as explained in the second bullet on page 1

Enter in box 6, as above, as appropriate according to whether your pension arrangement is for defined benefits or is money purchase.

If you have transferred to a Qualifying Recognised Overseas Pension Scheme

Enter in box 6 (not box 5) the amount of the excess percentage from the transfer including any tax paid by the scheme administrator.

General note on taxation of pensions

The pension to be entered in box 10 on page TR 3 of your Tax Return should include any pension income you receive in 2007-08 which relates to these excess benefits. Count only the gross (before PAYE tax) pension you receive. Do not count any amount of pension you will not receive because it is used to pay the Lifetime Allowance tax charge.

7

Lifetime Allowance Excess tax charge paid by your pension scheme

Enter the amount of Lifetime Allowance Excess tax charge paid by the scheme administrator, who will have told you how much tax has been paid. Enter the amount even if you have already included it in boxes 5 or 6. Where more than one pension scheme has paid such a tax charge, enter the total.

Annual Allowance Excess Tax Charge

8

Amount saved towards your pension, in the period covered by this Tax Return, in excess of the Annual Allowance

The annual allowance test is only for increases in pension rights (for defined benefits) or amounts of contributions paid (for money purchase arrangements) which have arisen in a pension input period ending in 2007-08.

You can ignore box 8 if you:

- became entitled to all your pension benefits from all your pension schemes before 6 April 2008, or
- had Enhanced Protection throughout tax year 2007-08, or
- are the personal representative of a scheme member who died during 2007-08 and you are filling in this form on that person's behalf for the period up to the date of death.

You are liable to a tax charge of 40% on the excess amount above your Annual Allowance if, in 'pension input periods' ending in 2007-08, the amount of the increase in your pension savings in registered pension schemes was more than your Annual Allowance. The Annual Allowance for the tax year 2007-08 is £225,000.

Enter in box 8 only the amount of the increases in pension savings which in aggregate exceed the Annual Allowance. The increases are arrived at differently depending on the type of pension arrangement. Show only the amount of the excess.

You can ignore the figures from particular pension arrangements within a scheme if you took all your benefits in 2007-08 for those arrangements.

How do you know you have exceeded the Annual Allowance?

The following are counted as an increase in your pension savings to be tested against your Annual Allowance:

- for money purchase arrangements (that is, where you are building up a pension pot) all contributions in the pension input period by you, other people on your behalf, and your employer. If you have had any money allocated to you arising from unallocated employer contributions held in the scheme, include these also. Add up the payments made
- for defined benefits (where you build up specified pension rights, for example, one-sixtieth of pay for each year of service)
 - the capital value, over the pension input period, of the increase in your pension rights in defined benefit arrangements (your scheme may send you a statement every year showing the amount of pension you have built up as an annual figure. The increase in your rights, converted to a capital value, is found by taking the figure for last year away from the corresponding figure for this year, and multiplying the resulting amount by 10. As a guide, where the increase in entitlement to future pension rights during the pension input period is £22,500, this uses up the whole of the Annual Allowance for 2007-08). Disregard the effect of any transfer payments or a pension sharing order, or the taking of some (but not all) of the benefits
 - any increase over the pension input period in your future entitlement to a separate lump sum in defined benefit arrangements, being a lump sum not paid for by giving up some of your pension rights. If your lump sum is not separate, the increase is measured only from your pension entitlement (see bullet point above).

If you pay voluntary contributions to top up defined benefit pension rights:

- count them as a money purchase arrangement if the top-up is building up a pot
- count them as a defined benefit arrangement if you are buying added years of pension rights.

Do not count contributions you are required to pay to a defined benefit arrangement, as they will be counted as part of your pension rights for a defined benefit arrangement.

If your defined benefit rights throughout the pension input period are deferred rights and not as an active member, for example, because you have left employment, do not count any annual increase which is ordinarily made under the scheme provisions to those rights.

- For cash balance arrangements, (that is, where there is a promised pot but without specifying the form of benefit) any increase in the pension input period, in the amount available for the provision of benefits. Count as input only any increase between the start and end of the pension input period. And the value of the promised pot at the start of the period can be increased by the greater of 5% or the increase in the Retail Prices Index during the period. So only count any increase arising above that revised starting level. Deduct from the total any contributions paid for contracting out of the state scheme. Disregard the effect of any transfer payment or a pension sharing order or the taking of some (but not all) benefits.
- For hybrid arrangements (where your eventual pension might come from more than one of the above types of arrangement, but you will ultimately only receive benefits from one of the types) count whichever of the types that apply to you produces the greater amount.

The 'pension input period' covered by this Tax Return

Each pension arrangement you have in a UK registered pension scheme has its own 'pension input period' to be used in connection with the Annual Allowance. It may use the same period as the tax year - 6 April to 5 April - or it may be a different period. Only count increases in pension savings for a pension input period ending in 2007-08. Do not count pension savings in pension input periods which will end after 5 April 2008. They will be counted next year. Your scheme administrator may have told you when a period ends. Otherwise, it may end on the anniversary of the start date. So if an arrangement started on 1 June 2006, it will end on 1 June 2007.

More information

For further details about the Annual Allowance, please see the Registered Pension Schemes Manual, from page RPSM06100000 at www.hmrc.gov.uk

9 **Unauthorised payments charge and surcharge**

and Unauthorised payments are payments by registered pension schemes which are made either to you or in respect of you and which:

- are specifically described in the pensions tax legislation as being unauthorised payments, or
- do not fit within the pensions tax legislation as being an authorised payment.

'Payments' need not necessarily be monetary amounts, but may include, for example, a transfer of assets.

The scheme administrator is likely to have told you if a payment was an unauthorised payment.

Unauthorised payments charge

If you received an unauthorised payment, or if one was paid to someone else but in respect of you, you are liable to an Income Tax charge of 40% of the value of the unauthorised payment. This is called the unauthorised payments charge.

Unauthorised payment surcharge

An unauthorised payment surcharge applies where the amount of the unauthorised payments made to, or in respect of you, in a 'surcharge period' (see overleaf) reaches a set 'surcharge threshold'. This is where the amount of the unauthorised payments from a registered pension scheme reaches 25% of the value of your rights under that scheme. The surcharge is an Income Tax charge of 15% of the value of the unauthorised payment, and is on top of the 40% unauthorised payments charge.

The scheme administrator is likely to have told you if the unauthorised payment surcharge applied to a payment they made to or in respect of you.

Unauthorised payments surcharge period

A surcharge period starts on the date that the first unauthorised payment was made to you, or in respect of you, and ends:

- 12 months after that date, or
- on the day on which the surcharge threshold is reached, if earlier.

So if in any 12 months the total unauthorised payments to, and in respect of, you from a particular scheme are less than 25% of the value of your rights under that scheme, there is no unauthorised payments surcharge.

9 Amount of unauthorised payment from a pension scheme, not subject to surcharge

If you received an unauthorised payment, and the payment is not subject to the unauthorised payments surcharge, enter the amount of the unauthorised payment in box 9. But see the note below.

10 Amount of unauthorised payment from a pension scheme, subject to surcharge

If you received an unauthorised payment, and the payment is subject to the unauthorised payments surcharge, enter the amount of the unauthorised payment in box 10. But see the note below.

Note

An unauthorised payment from a registered pension scheme paid to, or in respect of, you might have a deduction made from it to cover a tax liability that the scheme administrator of the pension scheme also has in respect of the same payment. When such a deduction is made, the amount of the unauthorised payment you must enter in box 9 or box 10, as appropriate, is the amount before the deduction. For example, if the unauthorised payment would have been £100 but £85 is paid instead, because an amount of £15 has been deducted to cover the scheme administrator's tax liability, you must enter £100 in the appropriate box. The scheme administrator of the pension scheme should tell you if such a deduction has been made.

Unauthorised Payment not subject to surcharge when paid which later becomes subject to surcharge

If an unauthorised payment was paid to, or in respect of, you in the previous tax year that was not subject to the unauthorised payments surcharge when it was paid that payment might become subject to the surcharge because of an unauthorised payment paid to, or in respect of, you, in 2007-08. This is because the further payment means the surcharge threshold is reached and all of the payments fall within the same surcharge period. If this happens please contact us about your Tax Return for the 2006-07 tax year.

Working Sheet - total pension savings charges

Use this Working Sheet to work out the figure to put into box 6 on the *Tax Calculation Summary* pages. The box numbers referred to in the Working Sheet below refer to the boxes on page Ai 4 of the *Additional information* pages.

Lifetime Allowance charge

Excess taken as lump sum <i>from box 5 on Ai 4</i>	<input type="text" value="1"/> £	box 1 x 55%	<input type="text" value="2"/> £
Excess not taken as lump sum <i>from box 6 on Ai 4</i>	<input type="text" value="3"/> £	box 3 x 25%	<input type="text" value="4"/> £
Lifetime Allowance charge		box 2 + box 4	<input type="text" value="5"/> £
Tax paid <i>from box 7 on Ai 4</i>	<input type="text" value="6"/> £	lower of 5 and 6	<input type="text" value="7"/> £
Lifetime Allowance charge due		box 5 minus box 7	<input type="text" value="8"/> £

Annual Allowance charge

Amount in excess of Annual Allowance <i>from box 8 on Ai 4</i>	<input type="text" value="9"/> £		
Annual Allowance charge due		box 9 x 40%	<input type="text" value="10"/> £

Unauthorised payments

'Not subject to surcharge' amount <i>from box 9 on Ai 4</i>	<input type="text" value="11"/> £	box 11 x 40%	<input type="text" value="12"/> £
'Subject to surcharge' amount <i>from box 10 on Ai 4</i>	<input type="text" value="13"/> £	box 13 x 55%	<input type="text" value="14"/> £
Unauthorised payment charge and surcharge due		box 12 + box 14	<input type="text" value="15"/> £

Total pension savings charges

Box 8 + box 10 + box 15			<input type="text" value="16"/> £
-------------------------	--	--	-----------------------------------

Copy box 16 to box 6 on the *Tax Calculation Summary* pages

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.