

Lifetime Allowance Charge (LTAC)

Amounts exceeding the Lifetime Allowance (LTA) are subject to a Lifetime Allowance charge (LTAC) at the time benefits are taken. Any pension taken is also subject to income tax, in addition to any LTAC. The LTAC is a charge on the individual for which the individual and the NHS Pension Scheme are jointly liable. There is an expectation on pension schemes to pay any LTAC to HMRC (HM Revenue and Customs) 'up front' and recoup the cost by reducing the benefits paid to the individual.

Amount of the LTAC

The Lifetime Allowance charge is 55% on any lump sum above your personal LTA and 25% against any pension in excess of your personal LTA.

There are examples below, which are illustrations of how this can apply.

Recovery of the LTAC

The arrangements that the NHS Pension Scheme operate are as follows:

- Any LTAC will be paid to HMRC by the NHS Pension Scheme upon payment of benefits.
- If your NHS Pension Scheme benefits incur a LTAC, then a recovery will have to be made against some or all of your benefits.
- Your benefits will be reduced in order to recoup the LTAC.
- Survivor pensions will not be reduced if they are less than half the value of that proportion of the member's pension that is deemed to be below the LTA. In other cases survivor pensions may be reduced.
- Children's Allowance is not reduced.
- The reductions are permanent. This is because the calculation of the recovery of the LTAC reflects the overall life expectancy in the NHS Pension Scheme. The amount each individual actually repays over his or her lifetime is therefore not tracked.

Below are examples, based on the 2010/11 tax year, showing benefits that exceed the LTA, where a LTAC would be due. The examples assume the member has no transitional protection.

Example 1

This member has 40 years NHS Pension Scheme membership and pensionable pay of £190,000 a year at retirement. The member has a pension of £95,000 and a lump sum of £285,000 and has not used up any of their lifetime allowance.

Pension benefits are valued, for LTA tax purposes, as follows:

Pension capital value: £95,000 x 20 = £1,900,000

Lump sum = £285,000

Total capital value = £2,185,000

Lifetime Allowance = £1,800,000

Excess over the LTA: £2,185,000 - £1,800,000 = £385,000

LTA charge on pension: 25% x £385,000 = £96,250 payable to HMRC

The LTAC is recovered by reducing the annual pension by the amount of the LTAC divided by a standard factor of 20, (£96,250 / 20) = £4,812.50 per year.

This will result in benefits payable of a pension of £90,187.50 a year and lump sum of £285,000.

The pension will be subject to income tax in the normal way, but the lump sum will remain tax-free.

Example 2

This member retires and has previously taken benefits that have used up 60% of the LTA and has not applied for any form of HMRC transitional protection. The member has 40% of the LTA available to use before any liability for a LTAC arises.

The benefits payable from the NHS Pension Scheme are a pension of £70,000 a year and a lump sum of £210,000.

Capital value = (£70,000 x 20) + £210,000 = £1,610,000

These benefits equate to a capital value of £1,610,000 or 89.44% of the LTA. This exceeds the amount of the available LTA remaining.

To calculate the appropriate LTAC it is first necessary to check that the lump sum payable from the NHS Pension Scheme does not exceed the maximum allowable under HMRC limits.

The maximum tax-free lump sum (called the Pension Commencement Lump Sum) is the **lower of**

- 25% of the remaining lifetime allowance
- 25% of the capital value of the benefits to be paid.

In this example the lump sum is less than 25% of the capital value of the benefits to be paid.

LTA available: £1,800,000 - 60% of the LTA (£1,080,000) = £720,000

Maximum tax-free lump sum available: £720,000 x 25% = £180,000

As the Scheme lump sum exceeds this amount by £30,000 (£210,000 - £180,000), a LTAC of 55% of the excess lump sum arises:

LTAC: £30,000 x 55% = £16,500

Lump sum payable: £210,000 - £16,500 = £193,500

The capital value of the pension is then assessed against the remaining LTA and any excess is subject to a LTAC at 25%.

LTA available: = £1,800,000 - £1,080,000 - £180,000 = £540,000

Capital value of the NHS pension: £70,000 x 20 = £1,400,000

Amount liable for a LTAC at 25%: £1,400,000 - £540,000 = £860,000

LTAC: £860,000 x 25 % = £215,000

The LTA Charge is recovered by reducing the annual pension by the amount of the LTAC divided by a standard factor of 20 ($\pounds 215,000 / 20$) = $\pounds 10,750$ per annum. This would result in benefits payable of a pension of $\pounds 59,250$ a year and lump sum of $\pounds 193,500$. The pension would continue to be subject to income tax in the normal way.

Lump sums on death

All lump sums paid on death (other than those covered by the transitional arrangements outlined below) are free of tax up to the LTA. Confirmation will be sent to the deceased's personal representative of the amount of LTA used up by the lump sum and to whom it has been paid.

Most lump sums will be below the LTA but those that are in excess of the LTA are liable for a lifetime allowance charge at 55%. It is for the deceased's personal representative to inform HMRC of the amount of lump sum paid and to arrange for any lifetime allowance charge to be paid to HMRC.

Lump sums on death after retirement

In some cases it may be possible for the charge to be reduced for sums paid on death after retirement. This is only relevant to NHS Pension Scheme members with benefits above the lifetime allowance.

For deaths under the age of 75: If a pensioner elects in writing for any payment as a result of the Scheme's 'five year guarantee period' to be treated as a "Pension Protection Lump Sum Death Benefit" then a charge at 35% may be deducted from the amount, rather than the usual 55%. Such payments are commonly referred to in the NHS Pension Scheme as death deficiency lump sums. Further information regarding this can be found on the HMRC website at: <http://www.hmrc.gov.uk/manuals/rpsmanual/rpsm10105150.htm>

Transitional arrangements

Transitional arrangements apply to lump sums paid following the death of a NHS Pension Scheme pensioner where:

- The pension was already in payment before A-day (i.e. before 6 April 2006)
- and
- The payment is made as a result of a scheme 'five year guarantee period' (as provided for in the NHS Pension Scheme regulations). This is where a member dies within 5 years of retiring and a death deficiency lump sum is payable.

In these circumstances the lump sum will be paid as normal and will be protected from the post A-Day rules.

Payment of tax

The net payment will be sent to the recipient and the charge will be sent directly to HMRC.

Lump sums on death: It is for the deceased's personal representative to inform HMRC of the amount of lump sum paid and to arrange for any lifetime allowance charge to be paid to HMRC.

Dependants benefits

Any benefits paid to a dependant are not tested against the recipient of the pension or the deceased's lifetime allowance.

2 year time limit

HMRC have set a limit of two years within which lump sums on death must be paid. This two-year period starts from when NHS Pensions could reasonably have been informed of the member's death.

If the lump sum on death is not paid within this two-year period, then the payment becomes unauthorised and is subject to an "unauthorised payments charge" of 40%.