Information about tax relief, limits and your pension

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Standard Life

Laws and tax rules may change in the future. The information here is based on our understanding in April 2013. Your personal circumstances also have an impact on tax treatment.

This document contains information on:

- Tax relief and the potential impact of paying over £50,000 a year into your pension
- Income Drawdown limits
- Tax on substantial pension funds of around £1.5 million
- Your retirement options
- Potential tax charges on death
- What Pension Input Periods are and how they work

We can help you understand how the above might affect you. You should also speak to your financial adviser or tax specialist.

Key facts at a glance

Fact – all pensions

04 The Annual Allowance for the tax year 2013/14 is £50,000. It is to change to £40,000 for any Pension Input Period ending on or after 6 April 2014.

05 You can carry forward unused allowances from the previous 3 years.

07 Tax on death where you have not taken any benefits and have reached age 75 is 55%.

07 The Lifetime Allowance has reduced to £1.5 million (tax years 2012/13 and 2013/2014) from £1.8 million (tax year 2011/12). From 6 April 2014, it will reduce further to £1.25 million.

08 £18,000 is the new limit to claim a pension fund as a lump sum on the grounds of triviality.

Fact – pensions with a drawdown option

06 The maximum income levels for drawdown is based on the Government Actuary's Department tables and the income is reviewed every three years up to age 75 (when it changes to yearly reviews). This is called Capped Drawdown. (The maximum is changing from 100% to 120% for income years starting on or after 26 March 2013. This may be amended following completion of the HMRC consultation.)

07 If you make pension payments after electing for Flexible Drawdown with any pension provider, they will be subject to a tax charge since you no longer have an annual allowance.

08 Tax on death benefits from pensions in drawdown is 55%.

Annual Allowance

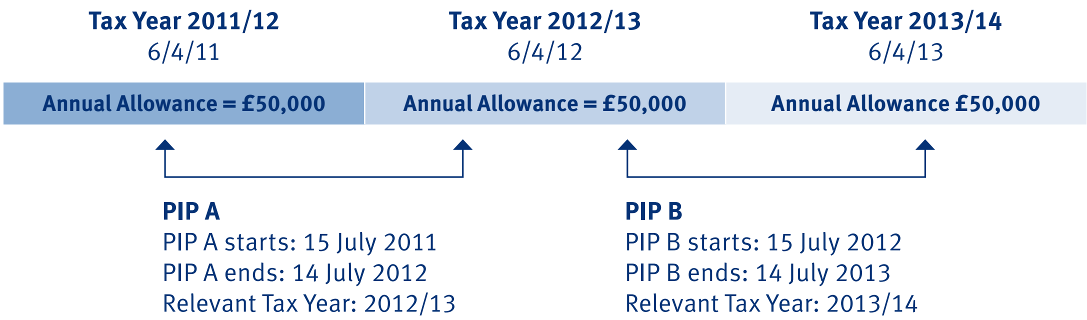
The Annual Allowance for tax year 2013/14 is £50,000. For tax years 2014/15 onwards, it is to change to £40,000. This includes payments you personally make, payments from your employer and payments from third parties such as family members.

Other points to be aware of are:

- For tax relief purposes personal and third party payments cannot exceed 100% of earnings, even if this is lower than the Annual Allowance of £50,000.
- If you have elected for Flexible Drawdown with any pension provider, you can make further pension payments, but you will no longer have an annual allowance. This means that any payments you make will be subject to a tax charge. (Flexible Drawdown is explained on page 7.)
- Standard Life will not accept any new pension payments from you once you have moved into Flexible Drawdown. You will still be able to make transfers from other pensions.
- Unused Annual Allowance from the previous 3 tax years can be carried forward to let you pay more in the current tax year. See 'What are the carry forward rules?' on page 5.
- A variable Annual Allowance tax charge of up to 50% applies to any pension payments above the Annual Allowance.
- There are only exemptions from the Annual Allowance test on death, serious ill-health or severe ill-health.

What is a Pension Input Period?

The purpose of a Pension Input Period (PIP) is to identify which tax year's Annual Allowance the payments made in that period will be tested against. Importantly, the pension payments you make in a PIP are checked against the Annual Allowance for the tax year the period ends in, not the year it started in.



You can tell us when you want your PIP to end. If you don't, we set it as the 12 month period that starts from the date of your first payment to your pension after 5 April 2006. New pension plans set up from 6 April 2011 onwards will automatically have a PIP which ends on the following 5 April unless you nominate a different end date.

Your pension plan has only one PIP, so the earliest payment you made will have set it.

You can ask us to bring your PIP end date forward, however you can only have one PIP ending in a tax year. Using the above example, PIP B's end date could be brought forward to as early as 6 April 2013. You could not bring it any further forward as it would then be ending in the same tax year as PIP A.

Special transitional rules

When the Government announced the reduction to the Annual Allowance in October 2010, they recognised that some people with a PIP ending in the 2011/12 tax year would have already paid more than £50,000 into their pension.

So special transitional rules were put in place for PIPs ending in the 2011/12 tax year only. These allow up to £255,000 to be paid into a pension without any Annual Allowance tax charge, as long as no more than £50,000 is paid in after 13 October 2010.

What are the carry forward rules?

From tax year 2011/2012, in some circumstances any unused Annual Allowance from the previous 3 years can be carried forward to the current year.

If, in the Pension Input Periods ending in the previous 3 tax years, you have not paid in more than £50,000 then you may have unused allowances that you can use in the current and future tax years. You must have been a member of a UK pension scheme in those earlier years to be able to use carry forward.

Here's how it works if you wanted to pay in more than £50,000 in the 2013/14 tax year:

- **Step 1** –
  You must pay in at least £50,000 in 2013/14.
- **Step 2** –
  Go back to the 2010/11 tax year and check to see what was paid in for the Pension Input Period ending in that tax year.
  If lower than £50,000 you have an unused allowance you can carry forward and use in the 2013/14 tax year.
- **Step 3** –
  Do the same for the 2011/12 tax year.
- **Step 4** –
  Do the same for the 2012/13 tax year.

Example

Tax year	How much you paid	How much you can carry forward
2010/11	£35,000	£15,000
2011/12	£20,000	£30,000
2012/13	£15,000	£35,000
Carry forward total		**£80,000**

So,

- **Carry forward total = £80,000**
- **Annual Allowance = £50,000**
- **Total allowance = £130,000**

You still need to have the earnings to support the payment as you still can't personally pay in more than 100% of your earnings in the current tax year.

If you think this is something you want to consider using please speak to your financial adviser for more details.

What happens if I pay more than I should?

If you pay in more than you are entitled to you could end up with a tax charge. The rate of tax is on a variable basis up to 50%. The rate depends on the rate of income tax you would be paying if the overpayment was added to your income. It's complicated so here are some examples to illustrate how the tax works.

Example 1

Susan has a total income of £41,000 in 2013/14. She has paid in £10,000 to her pension but her employer has been particularly generous and paid in £55,000 giving a total of £65,000. However, her allowance was only £50,000, so she has an overpayment of £15,000.

To work out the charge, she is allowed to deduct her personal payment to the pension from her income so:

- **£41,000 - £10,000 = £31,000**

However, the overpayment must be added back in to establish what level of tax is to be paid so:

- **£31,000 + £15,000 = £46,000**

£4,550 of this falls into the 40% tax bracket, leaving £10,450 of the overpayment in the 20% tax bracket.

- **£ 4,550 x 40% = £1,820**
- **£10,450 x 20% = £2,090**
- **Total tax charge = £3,910**

Example 2
Fred has a total income of £155,000 in 2013/14. He has paid in £30,000 to his pension and his employer has paid in £60,000 giving a total of £90,000. However, again his allowance was only £50,000, so he has an overpayment of £40,000.

To work out the charge he is allowed to deduct his personal payment to the pension from his income so:

- **£155,000 - £30,000 = £125,000**

Again the overpayment must be added back in so:

- **£125,000 + £40,000 = £165,000**

£15,000 of this falls into the 45% tax bracket, leaving £25,000 of the overpayment in the 40% tax bracket.

- **£15,000 x 45% = £ 6,750**
- **£25,000 x 40% = £10,000**
- **Total tax charge = £16,750**

The tax charge should be declared and paid through your self assessment. If you think this is something that could affect you please speak to your financial adviser for more details.

Losing out on tax relief
Tax relief is important as personal payments made to a pension which are higher than 100% of your earnings are not eligible for that relief, meaning you will lose out on an important benefit.

The way in which tax relief operates will depend on the type of pension you have. Some pensions operate on what is called the 'gross from gross' basis and others on the 'net from net' basis. The difference being was the payment taken gross from your income before tax was calculated, or taken net after tax has been calculated.

The gross basis (also known as the "net pay arrangement") means that your tax rate position is taken into account immediately. For example, if you are a higher rate taxpayer and you want to make a payment of £200 a month, £200 is taken from your income before your tax liability is calculated so the amount of tax you pay is reduced. This basis is normally used with occupational schemes provided by an employer.

The net basis (also known as the "relief at source method") is different. You decide you want to physically pay £80 a month. This is the net payment and is taken from your income after your tax liability has been calculated. We then claim the basic rate relief at 20% from HM Revenue & Customs. This means that a further £20 is then added to your pension making an overall monthly gross payment of £100.

If you are a higher or additional rate taxpayer you can normally claim further relief through your self-assessment. Using our example, this means a higher rate taxpayer can claim back a further 20% on each payment they make in a tax year.

This table will help you see varying 'gross' amounts based on the current basic-rate tax relief of 20%. So if, for example, you pay £100 each month to your pension, the 'gross' amount is actually £125.

Your net monthly payment	Gross monthly payment
£20.00	£25.00
£50.00	£62.50
£100.00	£125.00
£150.00	£187.50
£200.00	£250.00

Retirement options

You can take your retirement benefits at any age from 55. This includes your tax-free lump sum. However, we will only offer benefits after age 75 under our Self Invested Personal Pension (SIPP), Active Money Personal Pension (AMPP) and Group Self Invested Personal Pension (GSIPP).

Capped Drawdown applies to products that offer drawdown (such as SIPP). The income depends on tables provided by the Government Actuary's Department (GAD) and you can choose what level of income you wish up to a maximum.

Income review up to age 75	Every 3 years
Income review past age 75	Yearly*

*This now starts on the first income anniversary after your 75th birthday rather than on your 75th birthday.

Unsecured Pension (USP) changed to Capped Drawdown on 6 April 2011 and existing USP customers will gradually move onto the new basis over the coming years. This will happen automatically at the five-yearly review date or from the next income year if you ask us to bring that review forward.

If you had a pre-retirement pension pot at 6 April 2011 and put more of that into drawdown, this will normally trigger a review of your income levels for your whole pension based on the new GAD tables. However, you will still be able to carry on taking up to 120% until the end of the existing 5 year review period.

At your next review date your income levels will be calculated using the new GAD tables and 100% (or 120% if the review date is on or after 26 March 2013. This may be amended following completion of the HMRC consultation). The frequency of reviews will also change from 5 to 3 years from then on (or yearly if you are age 75 or over).

For income years starting on or after 26 March 2013 the maximum income limit will be 120%. (This may be amended following completion of the HMRC consultation.)

If you think you will be affected by any of the changes outlined above, please speak to your financial adviser or a tax specialist.

Flexible Drawdown is an alternative to Capped Drawdown. There is no limit on the amount of income you can take in any year, but, to be able to opt for this, you need to be in receipt of a minimum £20,000 gross guaranteed income from certain specified sources. These are

- state pensions
- lifetime annuities
- some scheme pensions
- top up payments from the Financial Assistance Scheme
- secure pensions from overseas pensions

Income from any other sources does not count.

You also can't make payments to money purchase schemes in the tax year you opt for Flexible Drawdown, or be an active member of a defined benefit scheme.

Once you have chosen Flexible Drawdown, in future tax years your annual allowance will be £0. Any payments made by you or on your behalf, or any active membership of a defined benefit scheme will incur a tax charge as explained on page 5.

If you want to find out more about these changes, please speak to your financial adviser or a tax specialist.

Standard Life will not accept any new pension payments from you once you have moved into Flexible Drawdown. You will still be able to make transfers from other pensions.

What happens if I die before I take my pension benefits?

The following table shows how any lump sum paid on your death may be taxed. If a pension is paid to your dependant instead, they will pay income tax but the 55% tax charge will not apply.

* The 55% tax charge will not apply if the proceeds are being paid to a charity and you have no surviving dependants.

Age at death	Benefits taken before death	55% tax applies to
Under 75	None	Any amount of lump sum paid on death that exceeds the Lifetime Allowance (£1.5 million in 2013/14)
75 and over	None	Any lump sum paid on death*
Any age	Capped or Flexible Drawdown	Any lump sum paid on death from your drawdown fund*

The Government have confirmed that Inheritance Tax will not normally apply to pensions.

Lifetime Allowance from 6 April 2012

The Lifetime Allowance (was £1.8 million for the tax year 2011/12) reduced to £1.5 million from 6 April 2012. From April 2014, it will reduce to £1.25 million.

If you have built up tax free lump sum rights of more than 25% before 6 April 2006 you have a special calculation which includes using the current Lifetime Allowance. For this calculation only, the Lifetime Allowance remains at £1.8 million even when the calculation is carried out after 5 April 2012.

Transitional Protection

Between April 2006 and April 2009 it was possible for you to apply for transitional protection, either Enhanced Protection or Primary Protection. These reduced or removed the tax charge if you exceeded the Lifetime Allowance. Your financial adviser will be able to confirm if this applies to you.

If you applied for Primary Protection, you will continue to have your protection calculated using £1.8 million.

If you applied for Enhanced Protection, that protection can continue.

The Government has recognised that people may have built up pension funds of between £1.5 million and £1.8 million based on the current rules. In this case, you have the opportunity to apply for a new form of protection which will reduce or eliminate completely any Lifetime Allowance tax charges. This protection is called Fixed Protection and will give a personal Lifetime Allowance of £1.8 million. To be eligible you:

- Must not already have Transitional Protection in place. Your adviser will be able to confirm if this affects you or not;
- Must currently have private pension provision of at least £1.5 million or expect to exceed that amount when you come to retire; and
- Should make no new pension payments from 6 April 2012, even if within the £50,000 Annual Allowance, as these payments will result in you losing your protection.

Forms were available on the HM Revenue & Customs (HMRC) website and had to be submitted to HMRC no later than 5 April 2012.

Smaller funds

It is possible to claim your private pensions as a taxable lump sum on the grounds of triviality if their total value is £18,000 or less and you are at least 60 years old.

How will these changes affect me?

Example 1

Jeremy has built up a pension fund over the last 25 years and it has now reached £1.6 million. He decides to retire in May 2013. He hasn’t applied for any kind of protection so he has the standard Lifetime Allowance of £1.5 million.

The excess £100,000 will be taxed in one of two ways:

- If Jeremy takes it as a lump sum, it will be taxed at 55% before payment so he will receive the net payment of £45,000 from that part of the fund.
- If he takes it as an income, it will be taxed at 25% however, he will also be paying income tax on that income as he receives it.

Had Jeremy applied for fixed protection he would not have been liable for this extra tax.

Example 2

Sylvia has also built up a considerable pension fund of £1.95 million. She, however, had applied for Fixed Protection so had a personal Lifetime Allowance of £1.8 million rather than £1.5 million. When she retires in September 2013 she will have a tax charge to pay but it won’t be as much.

- *With* Fixed Protection, the charge is either 55% or 25% (depending on which benefit option she chooses) of the excess: **£1.95 million - £1.8 million = £150,000 excess**
- *Without* Fixed Protection, the charge would have been either 55% or 25% of the excess: **£1.95 million - £1.5 million = £450,000 excess**

If you think you will be affected by any of the information given above, please speak to your financial adviser or a tax specialist. We recommend taking advice from a financial adviser before buying a product.