

GP Superannuation Newsletter

September 2013

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HMRC Changes to LTA Limit

The Standard Lifetime Allowance is Reducing

In the Finance Act 2013, the Government confirmed that the Standard Lifetime Allowance (LTA) will reduce from its current value of £1.5m to £1.25m, effective from 6 April 2014.

For the purposes of the LTA benefits crystallise on the date the member had an actual right to receive their benefits, this is the Benefit Crystallisation Event (BCE) date. In the HSC Pension Scheme the BCE is the later of:

- The payable date
- The date benefits are actually authorised by HSC Pension Service

The reduced LTA will therefore apply to members who become entitled to receive their benefits when they:

- Have a payable date on or after 6 April 2014—and the date the benefits are authorised is before that date
- Have a payable date before 6 April 2014—and the benefits are authorised on or after the 6 April 2014

For those who are affected by the reduced allowance, the percentage of LTA used will be based on £1.25m. In addition, for high earning scheme members any LTA charges that may apply to their benefits will also be based on the reduced allowance. Any delay in claiming benefits may therefore result in:

A bigger percentage of the LTA being used up—LTA charges may then apply to a later benefit crystallisation because there is insufficient LTA remaining

High earning scheme members—may become subject to LTA charges or see those charges increase

The following examples illustrate when the change would apply:

Member A: Benefits are payable from 1 April 2014. The AW is received 3 months before retirement, benefits are calculated and authorised on 19 March 2014. Benefits are tested against a LTA of £1.5m because the BCE date is the same as the payable date of 1 April 2014.

Member B: Benefits are payable from 1 April 2014 . The AW6 is completed 3 months before retirement but there is a delay before HSC Pension Service receives the form and benefits cannot be authorised until 9 April 2014. because of the delay the BCE date is 9 April 2014 and must therefore be tested against the lower LTA of £1.25m.

Member C: Benefits are payable from 8 April 2014. The AW6 is received prior to the last day of service, benefits are calculated and authorised on 16 March 2014. The benefits are tested against a LTA of £1.25m because the BCE date is the same as the payable date of 8 April 2014.

It is important to note that HSC Pension Service has **no discretion** on the date the benefits crystallise and the calculation of the LTA used.

Important action required

Members who wish to have their benefits assessed against the LTA of £1.5m must have a last day of membership of 4 April 2014 or earlier and allow sufficient time before that date for their HSC benefits to be authorised in order for the BCE date to occur before 6 April 2014. The completed application form must be sent to HSC Pension Service at least 3 months before the intended retirement date.

New Lifetime Allowance Protection announced by HMRC

The majority of members will not have pensions savings worth more than the £1.25m lifetime allowance on 6 April 2014. If their pension savings are worth more than £1.25m at retirement then without lifetime allowance protection they will be liable to pay a lifetime allowance charge on any benefits in excess of £1.25m.

The lifetime allowance charge is 55% if the excess is taken as a lump sum, and 25% where it is taken as a taxable pension income.

HMRC is introducing a new form of lifetime allowance protection called fixed protection 2014 to protect individuals who have built up pension pots of more than £1.25m but no more than £1.5m.

Fixed protection 2014

With fixed protection 2014 the member's standard lifetime allowance will be fixed at £1.5m. This means they can take pension savings worth up to £1.5m without paying a lifetime allowance charge.

The conditions for keeping fixed protection 2014 are identical to those for keeping fixed protection 2012, details of which can be located on the Pension and Tax pages on the website at::

<http://www.nhsbsa.nhs.uk/Pensions/3823.aspx>

Members will be able to apply to HMRC for fixed protection 2014 from August 2013; applications should be available soon on HMRC's website www.hmrc.go.uk. Members will not require a valuation from HSC pension Service in order to apply for fixed protection 2014.

Applications for fixed protection 2014 must reach HMRC before 6 April 2014. Late applications to HMRC will be rejected.

Individual Protection 2014

As well as fixed protection 2014, the Government has announced that individual protection 2014 will be available. The details of individual protection 2014 will be confirmed following a consultation (closing date 2 September) but it is expected that it will give the member an individual lifetime allowance equal to the value of their pension rights in 5 April 2014—up to an overall maximum of £1.5m. Any pension savings in excess of their individual lifetime allowance will be subject to a lifetime allowance charge.

Members will be able to apply for individual protection 2014 from 6 April 2014. HSC Pension Service will provide additional information on individual protection when this is disclosed by HMRC

HMRC Changes to Annual Allowance

Understanding the annual allowance for pension schemes

You can save as much as you like towards your pension each year, but there's a limit on the amount that will get tax relief. The maximum amount of pension savings that benefit from tax relief each year is called the annual allowance.

Annual allowance limit

The amount of your pension savings that benefits from tax relief is limited to an annual allowance, currently £50,000. From tax year 2014-15 onwards the annual allowance will go down to £40,000. This applies to pension savings in:

- a registered pension scheme
- an overseas pension scheme - as long as either you or your employer qualify for UK tax relief on those pension savings

If you save more than this amount you may have to pay a tax charge on the excess.

Working out your pension savings for a tax year - pension input periods

The value of all pension savings is measured over a period of time called the pension input period (PIP). This period usually covers 12 months but doesn't have to match the tax year. This doesn't apply to overseas pension schemes because their pension input periods must run from 6 April one year to 5 April the following year.

If you're saving into more than one scheme or even into more than one pension pot in the same scheme you may have several different pension input periods.

Your pension savings for a tax year are all the pension savings made in pension input periods that end in the same tax year.

When the annual allowance goes down to £40,000 from 2014-15 onwards

When the annual allowance goes down to £40,000 for the tax year 2014-15 onwards, it is pension savings with pension input periods **ending** in that tax year that are tested against the £40,000 annual allowance.

Because pension input periods don't have to match tax years, in many cases the pension input period will start in an earlier tax year than when it ends. This means that any pension savings for pension input periods **starting** before 6 April 2014 (which could be as early as 7 April 2013) but ending in the 2014 -15 tax year will count towards the new lower annual allowance limit of £40,000.

Pension savings in a defined benefits or cash balance arrangement

This is broadly the increase in the value over the pension input period of your:

promised pension for a defined benefits arrangement

promised pension pot for a cash balance arrangement

You'll need to find out the value of your pension savings at the start and end of the pension input period. The difference between the two values is the amount of your pension savings for the arrangement. If the value of your promised pension has gone down over the period you won't have any pension savings for that period.

What does this mean for GP's

- HSC Pension Service will be able to calculate any increases in the value of your pension savings from year to year
- This is reliant on you submitting your annual certificate of pensionable profit at the due date of 28th February each year
- Failure to submit your certificate on time could lead to a delay in highlighting any potential charges applicable

Further information on Annual Allowance can be found at <http://www.hmrc.gov.uk/pensionschemes/understanding-aa.htm>

Accountant's Mailing List

As mentioned in the last Newsletter, we at HSC Pensions have developed a database of GP's and their respective Accountants who deal with their Annual Certificates, Practice Accounts etc. This has been beneficial to keep those accountants currently on our mailing list, up to date with legislative and regulatory changes to pensions.

It also allows HSC Pensions to correspond directly with those responsible for superannuation issues such as contributions payments, annual certificates etc. without contacting the GP or Practice Manager. If you have not already done so and would like us to add your accountant to our mailing list can you please forward their contact details to Erin or John in HSC Pensions at Erin.McNamara@hscni.net or john.coyle@hscni.net.

Annual Certificates 2009/10, 2010/11 and 2011/12

Annual Certificates for 2009/10, 2010/11 and 2011/12 are now overdue and it is imperative that the certificates are completed and forwarded immediately to HSC Pension Service.

Please see the below the relevant Scheme Regulations governing the non-return of annual certificates.

(2) In respect of each scheme year, a principal medical practitioner and a non-GP provider shall provide each relevant host Health and Social Services Board with a certificate of their superannuable earnings based on—

(a) the accounts drawn up in accordance with generally accepted accounting practice by the practice of which the member is a member; and

(b) the return that member has made to Her Majesty's Revenue and Customs in respect of their earnings for that year, no later than 1 month after the date on which that return was required to be submitted to Her Majesty's Revenue and Customs.

Under the scheme regulations, a GP who fails to submit all relevant documentation can have their pensionable profit for that year deemed to be zero. This can have a major effect on a member's pension and/or survivors benefits.

- ◆ Please note the 2011/12 Annual Certificates should be sent directly to HSC Pension Service even if the GP has GP SOLO income declared in box 37 as we will verify the figures. If the figures do not agree with the information we hold from the OOH Providers we shall inform the GP/Accountant and it will be their responsibility to agree figures directly with the OOH Provider. When completing page 7 it is paramount that the name of the relevant OOH Provider is listed clearly for processing purposes.
- ◆ 2009/10 and 2010/11 Annual Certificates must be signed by the relevant OOH Provider if GP SOLO income has been declared. If page 7 has not been signed then the certificate cannot be fully processed.
- ◆ If declaring Income Pensioned Separately (IPS) in box 5, please state in the space below box 5 on page 1 of the Annual Certificate what employment (s) this income relates to.