

Tax limits – Lifetime Allowance

The Lifetime Allowance was abolished from 6 April 2024 and new Lump Sum Allowances were introduced. If you have taken any pension benefits before this date we may still need this information in order to calculate your available allowance

This guide provides you with information about the Lifetime Allowance. This tax limit could potentially affect anyone who saves towards their retirement but is most likely to affect those with relatively high levels of pensionable pay and long periods of service in their pension schemes. This is only a broad summary of pension taxation law. Any requirement for you to pay tax charges on pension savings is governed by legislation, not this or other leaflets.

In this guide you will find more information about:

What was the Lifetime Allowance

How the Lifetime Allowance might have affected you

How your pension savings were checked against the Lifetime Allowance

How your benefits can be treated if you exceed the Lifetime Allowance

Protection of your Lifetime Allowance:

- Protection that applies from 6 April 2016
- Historic protections

What was the Lifetime Allowance

You could save as much as you liked towards your pension, but there was a limit on the amount of pension savings you could build up before you paid extra tax. This limit was known as your 'Lifetime Allowance' (LTA) and was removed on 6 April 2024.

Up until 5 April 2023, if you had pensions savings over the LTA there was a lifetime allowance tax charge to pay on any pension savings that were over the lifetime allowance. From 6 April 2023 where the lifetime allowance is exceeded, no lifetime allowance charge will be payable and payments of pension savings over the lifetime allowance are instead taxed using income tax rates. Further information on what tax would be payable on the excess is shown later in this guidance.

The LTA was £1,073,100 for the 2023/2024 tax year

How the Lifetime Allowance might have affected you

Checks were carried out at certain times to see if the value of your pension benefits exceeded the LTA including when you retire, based on the actual benefits paid to you.

The LTA of £1,073,100 was effectively equivalent to the following benefits being paid on retirement:

- An annual pension of £53,655, if no cash lump sum taken; or
- A maximum cash lump sum of £268,275 and an annual pension of £40,241.25.

Before 6 April 2023, if your pension savings were worth more than the LTA when you retired, then you had to pay a tax charge (the LTA charge) on the excess savings above the LTA.

How your pension savings were checked against the Lifetime Allowance

The way any pension savings were valued against the LTA depended on the type of pension arrangement you were a member of. There are two main types of pension arrangements available:

- Defined benefit (also known as 'final salary' or 'career average'); and
- Defined contribution (also known as 'money purchase')

For defined benefit arrangements (such as the Shared Cost sections of the Railways Pension Scheme and the

British Transport Police Force Superannuation Fund) the amount of LTA used was worked out using both your pension and any lump sum amounts. It was based on:

- 20 times the value of your yearly pension; plus
- the amount of any lump sum.

For defined contribution arrangements (such as the Industry-Wide Defined Contribution section of the Railways Pension Scheme), the value of your Personal Retirement Account was tested against the LTA at the time you took your benefits.

Benefits that you built up in all of your pension arrangements would be used to work out how much of the LTA you had used up. Calculations would be performed separately at the time the benefits become payable from each of your arrangements.

As a result of the abolition of the LTA, the maximum amount you can usually take as tax-free lump sum will be frozen at £268,275, which is a quarter (25%) of the lifetime allowance of £1,073,100. However, if you have previously applied for protection (see below) and were entitled to a higher tax-free lump sum on 5 April 2023 you will continue to be entitled to this higher sum.

Therefore, you will need to take account of any other pension arrangements you may have in addition to your membership of the Railways Pension Scheme and the British Transport Police Force Superannuation Fund.

Example – working out the Lifetime Allowance in a defined benefit arrangement

Benefit details from the Scheme or Fund	
Pension a year	£20,000
Lump sum	£35,000
BRASS funds	£12,000
Lifetime Allowance limit (2022/2023)	£1,073,100
Lifetime Allowance used is worked out as:	
Pension x 20 (£20,000 x 20)	£400,000
<i>plus</i> Lump sum and BRASS funds	+ £47,000
Lifetime Allowance used =	£447,000
Percentage Lifetime Allowance used =	41.66%
$(\text{Lifetime Allowance used} \div \text{Lifetime Allowance limit}) \times 100$	
$(\text{£447,000} \div \text{£1,073,100}) \times 100$	
Benefit details from a previous pension arrangement or another Section of the Railways Pension Scheme	
Pension a year	£10,000
Lump sum	£30,000
Lifetime Allowance used is worked out as:	
Pension x 20 (£10,000 x 20)	£200,000
<i>plus</i> Lump sum	+ £30,000
Lifetime Allowance used =	£230,000
Percentage Lifetime Allowance used =	21.44%
$(\text{Lifetime Allowance used} \div \text{Lifetime Allowance limit}) \times 100$	
$(\text{£230,000} \div \text{£1,073,100}) \times 100$	

Lifetime Allowance left for other pension benefits

Total Lifetime Allowance available	100.00%
less amount used by benefits from the Scheme	-41.66%
less amount used by a previous pension arrangement	-21.44%
Percentage Lifetime Allowance left for other pension benefits =	36.90%

How your benefits were treated if you exceeded the Lifetime Allowance

From 6 April 2023, if the lifetime allowance was exceeded, no lifetime allowance charge was payable but payments of pension savings over the lifetime allowance were instead taxed using income tax rates.

The following example shows how the excess pension savings were calculated.

Benefit details from the Scheme

Pension per year	£50,000
Lump sum	£80,000
BRASS funds	£200,000
Lifetime Allowance (2023/2024)	£1,073,100

The value of benefits measured against the Lifetime Allowance is worked out as:

Pension x 20 (£50,000 x 20) =	£1,000,000
plus Lump sum and BRASS funds =	+ £280,000
Lifetime Allowance used:	£1,280,000

Amount in excess of the Lifetime Allowance (£1,280,000 - £1,073,100) =	£206,900
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Benefits payable within the Lifetime Allowance – assuming the member opts to take the maximum tax-free lump sum

Maximum tax-free lump sum is worked out as:

25% x £1,073,100 (Lifetime Allowance) =	£268,275
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Pension per year is worked out as:

Remaining amount under the Lifetime Allowance / 20 = (£1,073,100 - £268,275) / 20 =	£40,241.25
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Excess benefits

Pension per year (£50,000 - £40,241.25) =	£9,758.75
BRASS funds =	£0
Lump sum (£80,000 – (£268,275 - £200,000)) =	£11,725

Option 1: Excess benefits taken as cash

Scheme commutation factor ¹	12:1
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Chargeable amount (using Scheme commutation factor):

£9,758.75 x 12 + £11,725 =	£128,830
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This lump sum will be taxed at your marginal rate of income tax.

Option 2: Excess benefits taken as pension

Pension per year before tax charge (using Scheme commutation factor):
£9,758.75 + (£11,725 / 12) = £10,735.83

This additional pension will be taxed at your marginal rate of income tax.

¹ Legislation prescribes that a factor of 20 must be used when valuing pension benefits against the Lifetime Allowance, but does not prescribe the factor to use when converting a lifetime allowance charge, paid by a scheme on behalf of a member, into an equivalent reduction to the member's pension. Instead, pensions' law states that the reduction must be "in accordance with normal actuarial practice". In this example, it has been assumed that a factor of 12:1 (a different factor may be applicable depending upon the rules) is relevant, under normal actuarial practice, to convert cash lump sum to Scheme pension and vice-versa (i.e. £12 of cash can be converted to £1 per year of Scheme pension and vice-versa). Due to the interaction of the factor of 20 (prescribed by law) and the factor of 12 (prescribed under the Scheme Rules), the overall effect in this case is that the reduction to the excess pension benefits is greater than 25%.

Protection of your Lifetime Allowance

Many people will not have pension savings worth more than the Lifetime Allowance (LTA). However, if you do, or if you are at risk of exceeding the limit by the time you come to take your benefits, there are certain LTA protections that you should be aware of.

There are different forms of protections, some of which you are still able to apply for. Most of the protections are now historic, but are listed here for reference.

Protection that applies from 6 April 2016

The government made two types of transitional protection available for people as part of the reduction in the LTA on 6 April 2016 (from £1.25 million to £1 million), to ensure that the change was not retrospective. These are Fixed Protection 2016 and Individual Protection 2016.

To apply for either of these protections you will need to create an account for HM Revenue & Customs' (HMRC) online services (if you don't already have one) and then complete HMRC's online application form at gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance.

Fixed Protection 2016

'Fixed Protection 2016' will allow someone to retain a LTA of £1.25 million after 5 April 2016 and works in a similar way to the previous forms of fixed protection (see below). If HMRC received your application on or after 15 March 2023, you cannot keep building up your pensions from 6 April 2016, except in limited circumstances. If HMRC received your successful application before 15 March 2023 and you still validly hold this protection, you can continue to build up your pensions without impacting the validity of your Fixed Protection 2016 from 6 April 2023, but any pension savings built up in excess of your protected LTA will be taxed at your marginal rate of income tax.

Individual Protection 2016

'Individual Protection 2016' will give someone a personalised LTA amount equal to the value of their pension savings at 5 April 2016, subject to an overall maximum of £1.25 million. If you are granted Individual Protection 2016, then you will be allowed to make further savings into your pension scheme after 6 April 2016, but any pension savings in excess of your protected LTA will be taxed at your marginal rate of income tax.

Historic protections

Primary Protection

'Primary Protection' gives you an increased LTA, which means you can have more pension savings without paying the LTA charge. You can only have Primary Protection if you had built up pension savings of more than £1.5 million before 6 April 2006. To benefit from Primary Protection, you needed to have applied for it before 6 April 2009.

Helpline: 0800 012 1117
Website address: railwayspensions.co.uk or btppensions.co.uk
Last reviewed: June 2024

We recommend that you get independent financial advice before making any important decisions about your pensions arrangements.

Enhanced Protection

If you have 'Enhanced Protection' you will not have to pay a LTA charge, but there are restrictions on what you can do with your pension savings after 6 April 2006. To benefit from Enhanced Protection, you needed to have applied for it before 6 April 2009.

Fixed Protection 2012

'Fixed Protection 2012' was introduced when the LTA was reduced from £1.8 million to £1.5 million from 6 April 2012. People with Fixed Protection 2012 have a protected LTA of £1.8 million but cannot:

- make any further contributions to a money purchase arrangement after 5 April 2012; and/or
- increase their benefits in a defined benefit arrangement above a prescribed percentage.

This means that, normally, people had to opt-out of active membership of any registered pension scheme by April 2012 if they want to maintain Fixed Protection 2012. Where Fixed Protection 2012 is lost, a person reverts back to the standard LTA. You had to apply before 6 April 2012 to get Fixed Protection 2012.

Individual Protection 2014

When the LTA was reduced from £1.5 million to £1.25 million from 6 April 2014, the government introduced a form of protection called 'Individual Protection 2014'. Individual Protection 2014 gives people a protected LTA equal to the value of their pension savings on 5 April 2014, subject to an overall maximum of £1.5 million.

Unlike some other forms of protection, you will not lose Individual Protection 2014 by making further savings in your pension scheme, but any pension savings in excess of your protected LTA will be subject to a LTA charge. To benefit from Individual Protection 2014, you had to apply for it before 5 April 2017.

Fixed Protection 2014

When the LTA was reduced from £1.5 million to £1.25 million from 6 April 2014, as well as introducing Individual Protection 2014 (see above), the government introduced 'Fixed Protection 2014'. Fixed Protection 2014 works in a similar way to Fixed Protection 2012 but gives people a protected LTA of £1.5 million from 6 April 2014.

To benefit from Fixed Protection 2014, you had to have applied for it before 6 April 2014 and you will have needed to opt-out of active membership of any registered pension schemes with effect from 6 April 2014 if you wish to maintain it.

More information

As from 6 April 2023, if you have protected LTA under Fixed Protection 2012 or Fixed Protection 2014, you will not need to comply with the conditions in order to maintain the protected status. Therefore, you can re-start contributing and building up further benefits in a pension scheme.

If you are considering applying for a LTA protection, it is strongly recommended that you consult an independent financial adviser regulated by the Financial Conduct Authority. Details of independent financial advisers in your local area can be found at unbiased.co.uk

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