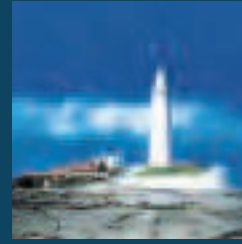
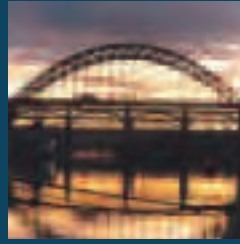


# Tyne and Wear Pension Fund

Administered by South Tyneside Council



## Tax Controls and your Benefits



## Tax Controls and Your LGPS Benefits

In this leaflet we look at the HM Revenue and Customs (HMRC) rules that govern pension savings.

Where pension terms are used, they appear in *bold italic* type. These terms are defined at the end of this leaflet.

There are controls on the total amount of contributions you can make into all pension arrangements and receive tax relief and on the pension savings you can have before you become subject to a tax charge. This is in addition to any tax due under the PAYE system on pension payments.

You can, if you wish, pay up to 100% of your UK taxable earnings in any tax year into any number of concurrent pension arrangements of your choice (or, if greater, £3,600 to a "tax relief at source" arrangement, such as a personal pension or stakeholder pension scheme) and be eligible for tax relief on the contributions.

There are three main allowances for pension savings – an annual allowance, a special annual allowance and a lifetime allowance. There are also protections for benefits earned up to 5 April 2006 if you are a high earner affected by the introduction of the lifetime allowance from 6 April 2006.

Most people will be able to save as much as they wish with full tax relief as their pension savings will be significantly less than the allowances.

### Are there any limits on how much I can pay in contributions?

At the present time there is no overall limit on the amount of contributions you can pay, although there is a limit of £5,000 on the extra LGPS pension you can buy and the amount you can pay to the scheme's *additional voluntary contribution (AVC)* arrangement is limited to 50% of your *pay*. Although there is no overall limit on the amount of contributions you can pay to all schemes, tax relief will only be given on contributions up to a total of 100% of your taxable earnings.

### What are the tax controls on my pension savings?

The annual, special annual and lifetime allowances cover any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS – but exclude the State pension.

#### Annual allowance

This is the amount by which the value of your pension benefits may increase in any one year (disregarding any increase in the value of any benefits in the year that they become payable) without you having to pay a tax charge. Years run from 1 April to 31 March. The annual allowance is set by the Treasury and for 2010/2011 is £255,000.

The assessment covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS.

If you exceed the annual allowance in any year (other than the year that all your benefits become payable) you are responsible for reporting this to HMRC on your self-assessment tax return and for paying the annual allowance tax charge. The Pensions Office will be able to tell you how much the value of your LGPS benefits, including any *additional voluntary contribution (AVC)* arrangement you may have, has increased.

The annual allowance tax charge is 40% of any increase in benefits above the annual allowance. The tax charge will not apply if you have registered to have enhanced protection (see below) but only if you keep enhanced protection throughout the relevant tax year.

### Special Annual Allowance

From 22 April 2009 a special annual allowance charge has been introduced for 2009/2010 and 2010/2011. **Most scheme members will not be affected by this.**

The special annual allowance charge will apply only if:

- you increase the level of your pension savings on or after 22 April 2009 beyond your normal, ongoing regular pension savings; and
- the value of your pension savings during the year is greater than £20,000; and
- in the year you increase the level of your pension savings, or one of the previous two tax years, you have an annual income of £150,000 or more.

The Government has announced that the level of annual income at which the special annual allowance applies is to be £130,000 or more from 9 December 2009.

If the special annual allowance charge applies, then the value of the additional pension savings will be subject to a special annual allowance tax charge to recover tax relief given at above basic rate. The basic rate in 2009/2010 is 20%.

### Lifetime Allowance

The lifetime allowance is the total value of all pension benefits you can have without triggering an excess benefits tax charge. If the value of your pension benefits when you draw them (not including any state retirement pension, state pension credit or any spouse's, *civil partner's* or dependant's pension you may be entitled to) is more than the lifetime allowance, or more than any primary lifetime allowance protection or enhanced protection you may have (see below), you will have to pay tax on the excess benefits. **The lifetime allowance covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS.**

The lifetime allowance set by the Treasury for 2010/2011 is £1.8million.

For pensions that start to be drawn on or after 6 April 2006, the capital value of those pension benefits is calculated by multiplying your pension by 20 and adding any lump sum you draw from the pension scheme.

For pensions already in payment before 6 April 2006, the capital value of these is calculated by multiplying the current annual rate, including any pensions increase, by 25. Any lump sum already paid is ignored in the valuation.

When any LGPS benefit, or any other pension arrangement you may have, is put into payment you use up some of your lifetime allowance – so even if your pensions are small and will not be more than the lifetime allowance you should keep a record of any pensions you receive. If you have a pension in payment before 6 April 2006, this will be treated as having used up part of your lifetime allowance.

If your LGPS benefits are more than your lifetime allowance or, if you have registered for them, your primary lifetime allowance protection or enhanced protection (see below) you will have to pay tax on the excess. If excess benefits are paid as a pension the charge will be 25%, with income tax deducted on the ongoing pension payments; if the excess benefits are taken as a lump sum they will be taxed once only at 55%.

**To have primary lifetime allowance protection or enhanced protection, you must have registered with HM Revenue and Customs by 5 April 2009.**

### Primary lifetime allowance protection

Primary protection is aimed at protecting benefits earned up to 5 April 2006 for those high earners affected by the introduction of the lifetime allowance from 6 April 2006 i.e. those whose benefits at 5 April 2006 already had a capital value in excess of the 2006/2007 lifetime allowance of £1.5 million.

If the value of your pension benefits at 5 April 2006 was more than the 2006/2007 lifetime allowance of £1.5million and you have registered for primary protection, you have an individual lifetime allowance based on how much your benefits at 5 April 2006 exceeded the value of the 2006/2007 standard lifetime allowance. Your individual lifetime allowance increases at the same rate as the standard lifetime allowance. So, if your benefits at 5 April 2006 exceeded the 2006/2007 standard lifetime allowance by 10%, your individual lifetime allowance will always be 10% higher than whatever the standard lifetime allowance is in future years.

If your pension rights are shared on divorce or dissolution of a *civil partnership* this will result in the individual lifetime allowance being reduced (or lost if it reduces to below the standard lifetime allowance).

### Enhanced protection

You could register for enhanced protection (as well as primary protection) if the value of your pension benefits at 5 April 2006 was more than the 2006/2007 lifetime allowance of £1.5million. You could also register for enhanced protection if you believed the value of those benefits might in the future be more than the standard lifetime allowance or if you believed your pension benefits in any one year would increase by more than the annual allowance. Under enhanced protection you will not pay tax on benefits in excess of the lifetime allowance provided your benefits at retirement do not exceed the value of your benefits at 5 April 2006 as increased after then, in general terms, by the greater of 5% per annum, the increase in the Retail Price Index or increases in your pensionable pay. If the limit is exceeded you will pay tax on the excess. You will lose enhanced protection if you pay contributions into a money purchase pension arrangement (e.g. pay into the LGPS arranged *AVC* facility<sup>1</sup>) or if you start a new pension arrangement, or if you transfer your LGPS benefits to another defined benefit pension scheme. You can also voluntarily give up enhanced protection by giving notice that you no longer wish to keep it.

If you lose enhanced protection you must notify HMRC within 90 days. Failure to do so could result in a fine of up to £3,000.

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<sup>1</sup> You will not lose enhanced protection if you are paying *AVCs* at 5 April 2006 purely for extra life cover and carry on doing so after that date provided the terms are not varied significantly from those that applied under the policy at 5 April 2006 so as to increase the level of life cover or extend the period during which such benefits are payable e.g. you do not adjust the premiums to purchase increased life cover.

## Transitional Protection: Lump Sums

When you retire you will, provided you have membership in the LGPS before 1 April 2008, be entitled to an automatic lump sum from the LGPS, in addition to your pension. There are two types of lump sum protection available. These relate to members who, at 5 April 2006, either:

- had built up a lump sum of £375,000 or more and the member has applied for primary and/or enhanced protection, or
- had built up a lump sum that was more than 25% of the value of any pension rights not in payment at that time.

It is expected that very few (if any) LGPS members will have built up lump sums that meet either of these limits. Information on the protection can be found on the HMRC website:

<http://www.hmrc.gov.uk/manuals/rpsmanual/RPSM03201060.htm>

## More information

For more information or if you have a problem or question about your LGPS membership or benefits, please contact The Pensions Office. Our contact details can be found on the back of this leaflet.

The national web site for members of the LGPS can be found at [www.lgps.org.uk](http://www.lgps.org.uk)

You can find out about what you can do if you are not happy about a decision made about your LGPS pension position from the leaflet **Unhappy With Your Pension Benefits?**

## Disclaimer

The information in this leaflet applies to individuals who were contributing members of the Local Government Pension Scheme on 1 April 2008 or who have since joined. This leaflet was up-to-date at the time of publication in April 2010. This leaflet is for general use and cannot cover every personal circumstance nor does it cover specific protected rights that apply to a very limited number of employees. In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this leaflet does not confer any contractual or statutory rights and is provided for information purposes only.

## Some terms we use

### Additional Voluntary Contributions (AVCs)

These are extra payments to increase your future benefits. You can also pay AVCs to provide additional life cover.

All local government pension funds have an AVC arrangement in which you can invest money through an AVC provider, often an insurance company or building society. AVCs are deducted directly from your pay and attract tax relief.

### Civil Partnership

A Civil Partnership is a relationship between two people of the same sex (civil partners) which is formed when they register as civil partners of each other.

## **Pay**

The pay on which you normally pay pension contributions is your normal salary or wages plus any shift allowance, bonuses, contractual overtime, Maternity Pay, Paternity Pay, Adoption Pay and any other taxable benefit specified in your contract as being pensionable.

You do not pay contributions on any non-contractual overtime, travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, any payment made by way of compensation to achieve equal pay nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

**Employees in England and Wales – April 2010**

# How to contact us

Our information is available in other ways on request.

We can provide information in other languages, Braille or large print.

We also have access to audio aids and BSL interpreters.

There are a number of ways you can get in touch with us.

If you need any further information on the LGPS please contact us at:



**The Pensions Office**  
Tyne and Wear Pension Fund  
Civic Centre Campbell Park Road  
Hebburn Tyne and Wear NE31 2SW



**Pensions Helpline**  
Tel 0191 424 4141



**Fax 0191 424 4171**



**Email [pensions@twpf.info](mailto:pensions@twpf.info)**



**Web [www.twpf.info](http://www.twpf.info)**

## Personal callers

You can visit us at the Pensions Office address during office hours. You don't need to make an appointment.

## Office hours

Monday to Thursday 8.30am to 5.00pm  
Friday 8.30am to 4.30pm

Please quote your National Insurance Number and your Membership ID number so we can quickly trace your records.

## Data Protection

We use the information you give us (and in return the information we give you) to do the tasks required for the administration of your pension, to carry out the Fund's official business and to help stop crime and prevent fraud. Under the Data Protection Act 1998, South Tyneside Council is the Data Controller (the holder, user and processor) of the pension information held about you.