

GP MEDECONOMICS

HOW TO...

Keep your pension funds safe

Take action by 5 April to duck tax penalties if your fund exceeds the lifetime limit. By Kevin Quinn

On 6 April 2006, called A-Day, HM Revenue & Customs (HMRC) altered the rules on how it limits individuals' tax-free pension savings in all pension schemes.

A lifetime allowance (LTA) was introduced and GPs with pension funds over the LTA limit (£1.65 million for the 2008/9 tax year) will be liable to pay a special tax charge on the excess when they take their pension benefits.

The charge will be 55 per cent if the excess is taken as a lump sum or 25 per cent if taken as a taxable pension.

Transitional protection

The LTA applies to NHS pension benefits and, with the exception of the state pension scheme, any other pension arrangements that you have.

If your fund is above the LTA you could avoid the tax charge by applying to HMRC for transitional protection by 5 April.

To do this you must first find out the values of all your pension arrangements at A-Day. Subject to eligibility you can get primary protection and, possibly, enhanced protection as well.

Primary protection

This is available to individuals with a fund in excess of £1.5 million on 6 April 2006 who wish to register a higher LTA.

For example, if a GP had a fund of £1.8 million on A-Day, they will be allowed to carry forward a personal limit of 120 per cent of the standard LTA that applies when they retire.

Enhanced protection

Depending on meeting certain conditions, this is available even if your pension benefits did not exceed the LTA at A-Day.

Enhanced protection eliminates the risk of an excess tax charge when you take your benefits. However, if you paid into money purchase plans such as a personal pension, additional voluntary contributions or a stakeholder scheme after A-Day this normally disqualifies you.

But you can continue contributing to the NHS scheme. Enhanced protection will apply if when you take your benefits



A-Day introduced a tax charge for individuals' pension funds over the lifetime allowance of £1.65 million

EXAMPLE

On 6 April 2006 (A-Day) the lifetime allowance (LTA) was £1.5 million and the value of a GP's pension funds exceeded this limit by £150,000:

- NHS Pension Scheme – £1.3 million.
- Personal Pension Plans – £350,000.

The GP applies for primary protection by 5 April 2009 and receives a personal LTA of 110 per cent.

If the standard LTA at retirement is £1.75 million, his personal LTA will be increased by 10 per cent to £1.925 million.

If the GP has not paid any money into non-NHS pension arrangements after A-Day, then he is also eligible to apply for enhanced protection and secure the best chance of avoiding a tax penalty on any excess over the standard LTA at retirement.

they do not exceed the 'relevant benefit accrual' (RBA).

If you take your benefits after A-Day, NHS Pensions (or its equivalent in Scotland and Northern Ireland) should advise if your benefits have failed the RBA test and enhanced protection is therefore lost.

GPs who should apply

The LTA limit is particularly relevant to GPs, including those who retired in the two years before A-Day. One reason is that GPs tend to be awarded extra funds after retiring as full earnings histories are not available at their retirement date.

Another reason is the 2008 judicial review decision that the government's capping of the pension uprating (dynamising) factors on GPs' NHS superannuable earnings for 2004/5 and 2005/6 should be removed.

The higher factors used to recalculate GPs' pension funds for those two years could push you over the LTA.

There is no guarantee that applying for protection will prevent you paying a tax charge if your fund exceeds the LTA. However, applying does at least give you the best chance to avoid or mitigate the potential charge.

If you are a high-earning GP with long service or approaching retirement, consider applying and get advice from your financial adviser as soon as possible.

Take action

If you think your pension fund will take you over the LTA, either now or in the future, then you should contact NHS Pen-

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sions immediately to request a judicial review A-Day valuation of your pension benefits. Also obtain A-Day valuations of any other pension funds.

If NHS Pensions is unable to provide a valuation in time for you to apply for protection by 5 April 2009, it should be possible to use a previous A-Day valuation to apply by this date.

You can apply to have your HMRC protection certificate amended when the revised valuation comes through, even if this is after 5 April 2009.

To apply for protection, complete and submit HMRC form APSS200 'Protection of existing pension rights'. The form and explanatory notes can be downloaded from HMRC's website. Ask your financial adviser for help with the form.

● *Kevin Quinn is a financial planner at specialist medical firm Ramsay Brown Financial Services Ltd, www.ramsaybrown.co.uk*

RESOURCES

- **England and Wales**
NHS Pension Scheme, www.nhsbsa.nhs.uk/pensions or 01253 774774.
- **Scotland**
NHS Superannuation Scheme, www.sppa.gov.uk or 01896 893 100.
- **Northern Ireland**
Health Personal Social Services (HPSS) Superannuation Scheme, www.dhsspsni.gov.uk/superann or 028 7131 9000.
- **HM Revenue & Customs**
www.hmrc.gov.uk