HMRC - PTM094310 - Valuing Pension Savings For Individual Protection 2016

Paragraphs 9(1)(a), (1)(b) and (4) and 10 to 13 Schedule 4 Finance Act 2016

To apply for individual protection 2016 (IP 2016) a member must calculate the value of their pension savings as they stood on 5 April 2016. The way in which pension savings are valued depends on what they consist of. The valuation of an individual’s pension savings is the total of four amounts (amounts A to D) as follows:

Amount A - any pension that the member started to receive before 6 April 2006 ,

Amount B - any pension that came into payment after 5 April 2006 but before 6 April 2016 (along with certain tax-free lump sums received in the same period),

Amount C - pension savings that the member has not yet taken from their registered pension scheme, and

Amount D - pension savings that the member has not yet taken from certain overseas pension schemes.

How to obtain a valuation

Paragraphs 9(1)(a), (1)(b) and (4) and 10 to 13 Schedule 4 Finance Act 2016

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How to obtain a valuation

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Regulation 14C The Registered Pension Schemes (Provision of Information) Regulations 2006 – SI 2006/567

In order to apply for IP 2016 a valuation will need to be obtained of the value of the member’s pension savings at 5 April 2016. However, HMRC will accept asset valuations already obtained to be treated as the value of the asset on 5 April 2016 where that valuation is at a date from 31 March 2016 to 4 April 2016 and there has been no material change in the assets between that date and 5 April 2016.

A member can ask their pension scheme provider to give them a value for their pension savings on 5 April 2016 or tell them (if they are not already aware of it) what their annual rate of pension was on that date. A scheme administrator must give this information to the member if they receive the member’s request before 6 April 2020 – see PTM164120.

As the pension rights will be valued on 5 April 2016 this valuation will not be affected if, after this date, the scheme reduces the member’s benefits as a result of an agreement to pay the member’s annual allowance charge (known as ‘scheme pays’ – see PTM056400).

Overview of valuing pre-6 April 2006 pensions in payment (Amount A)

Paragraph 10 Schedule 4 Finance Act 2016

The value of certain pensions in payment before 6 April 2006 (known as ‘relevant existing pensions’) uses up lifetime allowance if a member has a benefit crystallisation event (BCE) on or after 6 April 2006. However whilst relevant existing pension may use up lifetime allowance it cannot be subject to the lifetime allowance charge.

So a member receiving a relevant existing pension needs to include the value of this pension in the value of their pension savings as at 5 April 2016 for IP 2016.

How a relevant existing pension is valued depends on the form of the pension and whether or not the member has had a BCE since 6 April 2006. Where a member has more than one pension in payment ‘Amount A’ is the total of the values of each pension.

What is a relevant existing pension

Broadly, a relevant existing pension is a pension or annuity which was in payment on 5 April 2006 and derived from UK tax-relieved pension savings. Specifically, a relevant existing pension is any of the following types of pension that was in payment on 5 April 2006 (unless it is being paid to the individual as a dependant following the death of a scheme member):

a pension under an approved Chapter I Part 14 Income and Corporation Taxes Act 1988 (ICTA) retirement benefits scheme

a pension from a scheme formerly approved under Section 208 ICTA 1970

a pension under a relevant statutory scheme (defined in section 611A ICTA 1988) or a scheme treated by HMRC as if it were a relevant statutory scheme

an annuity (or income drawdown) under any contract relating to (a) to (c) inclusive (such annuities/pensions include bought-out benefits where the contract is in the member’s name)

a pension under the Parliamentary pension schemes or funds

an annuity from a retirement annuity contract

an annuity from personal pension scheme funds approved under Chapter 4 Part 14 ICTA 1988

income withdrawals under a personal pension scheme.

Amount A - valuing a pension or annuity where there has been no BCE

Paragraph 10 Schedule 4 Finance Act 2016

Subject to the special rule for drawdown pensions set out in the next section, the pension or annuity is valued by multiplying by 25 the annual rate at which it was payable on 5 April 2016.

Note that it is the annual rate that counts and not the actual amount of pension that was paid in the previous 12 months. So if, on 5 April 2016, the annual rate at which the pension or annuity is payable is £10,000 then its value for IP 2016 is £250,000 (£10,000 x 25).

If the member had more than one pension in payment on 5 April 2006, Amount A includes the total of the values of each pension calculated as above.

The value of the lump sum does not have to be taken into account as allowance is made for it in the multiplier used to value the pension.

Amount A - valuing a drawdown pension where there has been no BCE

Paragraph 10(1)(b), 10(6) and 10(7) Schedule 4 Finance Act 2016

Paragraph 20(4) Schedule 36 Finance Act 2004

Before 6 April 2006 a drawdown pension would have been called either:

income drawdown if being paid from a retirement benefits scheme or a deferred annuity contract (section 32 policy), or

income withdrawal if being paid from a personal pension scheme.

Where a member has more than one drawdown pension in payment on 5 April 2006, Amount A includes the total of the values of each drawdown pension calculated below.

The value of a drawdown pension is found by the formula:

The value of ARP will vary depending on the exact form of drawdown pension on 5 April 2016.

Capped drawdown

If on 5 April 2016 the drawdown pension is in capped drawdown (see PTM062520) ARP is the maximum amount of capped drawdown pension the member was able to take for the drawdown year which includes 6 April 2016.

Flexi-access drawdown previously flexible drawdown

If on 5 April 2016 the drawdown pension was in flexi-access drawdown but the pension had previously been in flexible drawdown (see PTM062580) ARP is the maximum amount of capped drawdown pension that would have been payable in the drawdown pension year in which the flexible drawdown declaration was accepted by the scheme administrator, had that declaration not been made.

Flexi-access drawdown previously capped drawdown

Where the member converted their capped drawdown fund to flexi-access drawdown after 5 April 2015 but before 6 April 2016 (see PTM062700) ARP is maximum annual capped drawdown pension that could have been paid in the drawdown pension year in which the conversion to flexi-access drawdown occurred, had that conversion not occurred.

Note that in all cases, the maximum amount is not the amount the member is actually taking each year. So, for avoidance of doubt, a drawdown pension fund doesn’t need to be reviewed to facilitate the valuation.

Example 1

Alan entered into income withdrawal on 15 January 2006. On 5 April 2016 this pension was being paid as capped drawdown. Alan’s most recent review took place on 14 January 2014 when his maximum drawdown pension was calculated as being £30,000 per annum and this applies for his next 3 drawdown pension years. On 5 April 2016, the maximum drawdown pension Alan can take is therefore £30,000 although he is only taking £20,000 per year.

The value of Alan’s drawdown pension for IP 2016 is

Alan should include £600,000 in respect of this pension in his IP 2016 relevant amount.

Example 2

Petra entered into income withdrawal on 30 June 2005. Up to August 2015 Petra received pension as capped drawdown; at this point her maximum drawdown pension was £36,000pa. In August 2015 Petra took a payment of £40,000 which being more than her maximum caped amount converted the pension to flexi-access drawdown (see PTM062750). The valuation of Petra’s drawdown pension for IP 2016 is based on the maximum drawdown pension she could have taken at the time she converted to flexi-access drawdown, that is

25 x (£36,000 @ 80%) = £720,000

Amount A - valuing a pre-6 April 2006 pension or annuity where there has been a BCE

Paragraph 10(1)(a), 10(2) to 10(5) Schedule 4 Finance Act 2016

Paragraph 20(4) Schedule 36 Finance Act 2004

When a member with a pre 6 April 2006 pension in payment has their first BCE the pension tax rules say that there is a deemed BCE in relation to any pre-6 April 2006 pension or annuity. This deemed BCE occurs immediately before the first actual BCE. The amount of lifetime allowance used up by any pre-6 April 2006 pension/annuity was calculated at the time of the first actual BCE using the formula:

where ARP is the annual rate pension at the time of the first actual BCE.

Note it is the annual rate and not the amount of pension or annuity paid in the previous 12 months.

For IP 2016 purposes this same value is used as the starting point, but it is then revalued using the formula

(25 x ARP) x (£1,250,000 / SLT)

SLT is an amount equal to what the standard lifetime allowance was at the time the BCE occurred.

ARP is the annual rate of the pension payable at the time the first actual BCE occurred.

If a member had more than one BCE since 5 April 2006 then the first BCE is always used for the purposes of the revaluation.

The formula is designed to take account of any change in the standard lifetime allowance since the BCE.

The deemed BCE in respect of the pre 6 April 2006 pension is not an actual BCE so the scheme administrator of the scheme under which the actual BCE occurred should not have included the deemed crystallised amount (25 x ARP) in the lifetime allowance statement provided to the member. However, the scheme administrator may have informed the member of the amount of lifetime allowance used up by the deemed BCE at the time of the first BCE. Alternatively the member can ask the scheme administrator for the value of the deemed BCE to be used for the purpose of arriving at Amount A using the above equation.

Example

Johanna’s first BCE occurred on 30 October 2009 when the annual rate at which her pre-6 April 2006 pension was payable was £10,000. Its value for lifetime allowance purposes would have been £250,000 (£10,000 x 25).

For IP 2016 purposes this same value is used as a starting point, but it is revalued using the formula

£250,000 x (£1,250,000 / SLT)

Johanna’s first BCE was in tax year 2009-10 when the standard lifetime allowance was £1,750,000. . So the value of her pension or annuity for IP 2016 is

£250,000 x (£1,250,000 / £1,750,000) = £178,572

(HMRC will accept rounding up to the nearest pound for administrative convenience.)

Amount A - valuing a pre-6 April 2006 drawdown pension where there has been a BCE

Paragraph 10(1)(a), 10(2) to 10(5) Schedule 4 Finance Act 2016

Paragraph 20(4) Schedule 36 Finance Act 2004

For IP 2016 purposes drawdown pensions that started before 6 April 2006 are valued using the formula,

(25 x ARP) x (£1,250,000 / SLT)

SLT is an amount equal to what the standard lifetime allowance was at the time the BCE occurred.

ARP is the maximum amount of drawdown pension payable in the drawdown pension year in which the BCE occurred, but how ARP is calculated depends on when the BCE took place and the form of drawdown pension at the point of that BCE. If the member had more than one BCE before 5 April 2016, they always use the date of the first BCE for the purposes of the revaluation.

BCE before 6 April 2011

For all forms of drawdown pension ARP is the maximum annual amount that could have been paid as either unsecured pension or alternatively secured pension in the pension year that contains the date of the first BCE.

BCE 6 April 2011 to 5 April 2015

Capped drawdown – ARP is the maximum amount that could have been paid in the pension year that contains the date of the first BCE.

Flexible drawdown – ARP is the maximum annual amount that could have been paid as capped drawdown immediately before the BCE had a flexible drawdown declaration not been made.

BCE 6 April 2015 to 5 April 2016

Capped drawdown - ARP is 80% of the maximum amount that could have been paid in the pension year that contains the date of the first BCE.

Flexi-access drawdown but previously flexible drawdown (see PTM062740) - ARP is 80% of the maximum amount that could have been paid as capped drawdown in the pension year in which the flexible drawdown declaration was accepted, had immediately before the BCE that flexible drawdown declaration had not been made.

Flexi-access drawdown but previously capped drawdown (see PTM062750) – ARP is 80% of the maximum amount that could have been paid as capped drawdown in the drawdown pension year in which the conversion to flexi-access drawdown took place had the conversion not taken place.

Example

Bertram started income withdrawal in January 2006. His first BCE occurred on 30 June 2014 when the standard lifetime allowance was £1.5 million. In January 2012 Bertram converted his drawdown pension to flexible drawdown. At the point his flexible drawdown declaration was accepted the maximum annual amount of drawdown that Bertram could have taken was £30,000, although he was only taking £25,000 each year. ARP is therefore

For IP 2016 Bertram’s pre 6 April 2006 drawdown pension is valued as

(25 x £24,000) x 1.25 million/standard LTA

£600,000 x £1,250,000/£1,500,000 = £500,000

(HMRC will accept rounding up to the nearest pound for administrative convenience.)

Amount B - valuing pre-6 April 2016 BCEs

Paragraph 11 Schedule 4 Finance Act 2016

Section 216 Finance Act 2006

Benefits are tested against the lifetime allowance whenever a benefit crystallisation event (BCE) occurs. BCEs can occur under registered pension schemes, and in certain circumstances non-UK pension schemes (see PTM113410).

How the amount of lifetime allowance that was used up is calculated will depend on the type of benefits that the member has taken. Guidance on when a BCE occurs and how to calculate the value of a BCE starts at PTM088000. For BCEs under a non-UK scheme also see the guidance starting at PTM113400.

It will be necessary to identify the amount of lifetime allowance used up by each BCE and then revalue it to give a value as at 5 April 2016. This is done multiplying the amount of the BCE by using the formula

Note that for individuals with:

fixed protection the standard lifetime allowance is £1.8 million where the ‘normal’ standard lifetime allowance is below this amount

fixed protection 2014 the standard lifetime allowance is £1.5 million where the ‘normal’ standard lifetime allowance is below this amount

Where a BCE has occurred under a registered pension scheme, the scheme administrator should have given the member with a BCE statement (see PTM164400) showing the percentage of the lifetime allowance used up by their BCE(s). Where the BCE occurs after 6 April 2012 for a member with a fixed protection (FP 2012), the BCE statement will be based on a percentage of £1.8 million. Similarly, where the BCE occurs after 6 April 2014 for a member with fixed protection 2014 (FP 2014) the BCE statement will be based on a percentage of £1.5 million.

Where they have had more than one BCE, it is the total of the revalued amounts calculated as above that is Amount B.

Example 1 no fixed protection

In this example it is assumed that the individual does not know the actual value of the amount(s) crystallised and is using their BCE statement percentage to calculate it. If the actual amount is known, or can be obtained from the scheme administrator, then this should be used instead where it provides a higher value because the lifetime allowance percentage was rounded down to two decimal places.

On 23 May 2008, Matt who is then aged 61 takes a scheme pension of £21,000 (a BCE 2) and a pension commencement lump sum (PCLS) of £140,000 (a BCE 6) from his employer’s occupational pension scheme. At that time, Matt has no form of protection and has not previously taken any pension benefits. Matt’s BCEs use up £560,000 of his lifetime allowance (£21,000 x 20 plus £140,000). In 2008-09 the lifetime allowance was £1,650,000. Matt’s BCEs used up 33.93per cent (rounded down) of the standard lifetime allowance at the time and his scheme administrator gives Matt a BCE statement showing this percentage. .

On 2 August 2011, Matt takes a PCLS of £150,000 (BCE 6) from a personal pension schemes and designates £450,000 as being available for the provision of drawdown pension. His BCEs use up £600,000 of his lifetime allowance. In tax year 2011-12 the lifetime allowance is £1,800,000. So these BCEs use up 33.33 per cent (rounded down) and his scheme administrator gives Matt is a BCE statement showing this percentage. Matt now has two BCE statements showing that in total he has used up 67.26 per cent of the lifetime allowance.

As Matt has other uncrystallised pension savings he decides to apply for IP 2016. Matt knows from his BCE statements that in:

2008-09 he crystallised 33.93 per cent

2011-12 he crystallised 33.33 per cent

This converts into the following amounts

For 2008-09: 33.93/100 x £1.65 million = £559,845

For 2011-12: 33.33/100 x £1.8 million = £599,940

The valuation of amount B for Matt is £812972.22 calculated as follows:

(£559,845 x 1.25 million/ 1.65 million) + (£559,940 x 1.25 million/1.8 million)

£424,125 + £388,847.22 = £812,972.22

Example 2 with fixed protection

In this example it is assumed that the individual does not know the actual value of the amount(s) crystallised and is using their BCE statement percentage to calculate it. Where benefits are taken whist the individual has fixed protection the BCE statement should be based on the higher standard lifetime allowance given by the fixed protection, i.e. £1.8 million for fixed protection or £1.5 million for fixed protection 2014.

However, if they know the actual value of the amount(s) crystallised or this can be obtained from the scheme administrator of the scheme(s) from which they have taken benefits, they should use this amount instead where it provides a higher value than that obtained by converting the lifetime allowance statement percentage because the lifetime allowance percentage has been rounded down to two decimal places.

On 5 July 2008, Samina took a pension commencement lump sum (PCLS) of £100,000 (BCE 6) and purchased an annuity for £300,000 (BCE 4) from one of her personal pension schemes. At that time, Samina had no form of protection and the standard lifetime allowance was £1.65 million. The total amount crystallised was £400,000 which was 245.24 per cent. had not previously taken any pension benefits. Samina’s BCEs used up £400,000 of her lifetime allowance. In tax year 2008-09 the lifetime allowance was £1,650,000. So her BCEs used up 24.24 per cent of the standard lifetime allowance (rounded down). The scheme administrator will provide a statement showing this percentage annually until Samina reaches age 75 (in 2028).

Samina applied for fixed protection so from 6 April 2012 has a lifetime allowance of £1.8 million. On 9 September 2012, Samina took a PCLS of £150,000 (BCE 6) and designated £450,000 as being available for the provision of drawdown pension. These BCEs used up £600,000 of Samina’s lifetime allowance. Although the standard lifetime allowance for 2012-13 was £1,500,000, Samina has fixed protection so her standard lifetime allaonce is £1.8 million. The percentage to be shown on her BCE statement is a percentage of £1,800,000 and not of the £1,500,000 standard lifetime allowance. So her BCEs use up 33.33 per cent (rounded down) and her scheme administrator gives her an annual statement showing this percentage.

Samina now has 2 certificates showing that in total she has used up 57.57 per cent of her lifetime allowance.

On 25 March 2013, Samina loses her fixed protection. She decides to apply for IP 2016 as she has other uncrystallised rights.

Samina knows from her BCE statements that in

in 2008-09 she crystallised 24.24 per cent of £1,650,000 and

in 2012-2013 33.33 per cent of her £1,800,000 fixed protection lifetime allowance.

This translates into the following amounts:

For 2008-09: 24.24/100 x £1.65 million = £399,960

For 2012-13: 33.33/100 x £1.8 million = £599,940

(The rounding down accounts for these figures being less than the original value of the benefits.)

These amounts are revalued using the formula

The valuation of amount B for Samina is £719,625, calculated as follows:

(£399,960 x 1.25 million/1.65 million) + (£599,940 x 1.25 million/1.8 million – as Samina had fixed protection in 2012-13)

£303,000 + £416,625 = £719,625

Overview of valuing uncrystallised rights under registered pension schemes on 5 April 2016 (Amount C)

Paragraph 12 Schedule 4 Finance Act 2016

Section 212 Finance Act 2004

Pension benefits from savings in a registered pension scheme that have not yet been taken are referred to as ‘uncrystallised rights’ in the pensions tax legislation.

For IP 2016 purposes, these rights are valued in the same way as for other purposes of the pension tax rules. The valuation method to be used differs depending on the type of arrangement that the member’s pension savings are in.

The member’s savings in a registered pension scheme could be in any - or all - of the following types of arrangement:

other money purchase arrangements (that is money purchase arrangements that are not cash balance arrangements)

cash balance arrangements

defined benefits arrangements, and

hybrid arrangements.

See PTM023000 for more details on the types of arrangements.

Where the member has more than one set of uncrystallised rights Amount C is the total value of all the member’s uncrystallised rights held under registered pension schemes.

Amount C - valuing uncrystallised rights under an other money arrangement

Section 212(5) Finance Act 2004

The value of uncrystallised rights on 5 April 2016 will be the aggregate on that day of the value of any cash held under the arrangement and the market value of the other assets such as property and shares held by the arrangement. Any loans or other indebtedness should be included in the calculation. For example if a scheme has a commercial property valued at £800,000 as at 5 April 2016 and outstanding mortgage against that property of £150,000. The value for IP 2016 is £650,000 (£800,000 less the £150,000 outstanding mortgage).

Valuing an insurance policy which is included in a member’s pension savings

The Association of British Insurers (ABI) and HMRC have agreed a protocol for the valuation of insurance policies (including with-profits policies) as at 5 April 2014. This is not a detailed prescriptive method of valuing policies, rather it is a broad framework. Insurance policies should be valued in accordance with this ABI protocol for the purposes of IP 2016.

Any questions about valuing insurance policies as at 5 April 2016 should be raised with the insurer providing the policy.

Amount C - valuing uncrystallised rights under a cash balance arrangement

Sections 212(4) and 277 Finance Act 2004

The value of uncrystallised rights on 5 April 2016 is the amount that would be available for the provision of immediate benefits if the member had been entitled to receive them on that day but subject to two valuation assumptions.

The two valuation assumptions are that:

the benefit should be calculated assuming, if the member has not already done so, that they have reached the age at which no reduction would apply under the scheme’s rules to the payment of an immediate benefit, and

they are deemed to be in good physical and mental health on 5 April 2016.

Example

Jordan has pension savings in a cash balance arrangement. Under her pension scheme rules, Jordan is promised a pension pot equal to £25,000 for each year of service. On 5 April 2016, Jordan, who is 57, has completed exactly 20 years of service. For IP 2016 purposes, the value of Jordan’s pension pot is £500,000 regardless of how much money is actually in her pot on 5 April 2016.

Amount C - valuing uncrystallised rights under a defined benefits arrangement

Sections 212(6) and 277 Finance Act 2004

The value of uncrystallised rights on 5 April 2016 will be the total of

20 x the member’s gross annual pension built up to date, ignoring any potential commutation of part of the pension for a tax-free lump sum (known as a pension commencement lump sum) (PCLS), and

If the scheme provides a separate lump sum the value of any separate lump sum built up to date. For example if the member is in a pension scheme that provides a pension of 1/80th final salary and a separate lump sum of 3/80ths final salary for each year of pensionable service.

The annual pension and separate lump sum to be valued are those which would be paid if they were taken on 5 April 2016 but subject to two valuation assumptions.

The two valuation assumptions are that:

the benefit should be calculated assuming, if the member has not already done so, that they have reached the age at which no reduction would apply under the scheme’s rules to the payment of an immediate benefit, and

they are deemed to be in good physical and mental health on 5 April 2016.

Example where PCLS is by commutation

Lee is a member of a defined benefits scheme with an accrual rate of 1/40th of pensionable earnings for each year in the scheme.

On 5 April 2016 Lee is aged 55, is still in pensionable service, has pensionable earnings of £90,000 and has completed exactly 20 years pensionable service. His normal retirement age under the scheme is 65. Under the scheme’s rules, when a pension is taken before age 65, the pension is reduced by 5 per cent for each year the member is below that age. So if Lee actually took his pension on 5 April 2016 it would be reduced by 50 per cent.

For the purposes of the IP 2016 valuation however Lee is assumed to be 60 and so his promised pension is £45,000 (20/40 x £90,000) with a value for IP 2016 of £900,000 (20 x £45,000).

Example where scheme provides a separate PCLS i.e. not by commutation

Anna is a member of a defined benefits scheme providing a pension with an accrual rate of 1/80th and a separate lump sum of 3/80ths of pensionable earnings for each year in the scheme.

On 5 April 2016 Anna is aged 60, is still in pensionable service, has pensionable earnings of £80,000 and has completed exactly 30 years pensionable service. Her normal retirement age under the scheme is 67. Under the scheme’s rules, when a pension is taken before age 67, the pension is reduced by 4 per cent and the lump sum by 2 percent for each year the member is below that age. So if Anna actually took her pension and lump sum on 5 April 2016 they would be reduced by 28 per cent and 14 per cent respectively.

For the purposes of the IP 2016 valuation Anna is assumed to be 67 and so her promised pension is £30,000 (30/80 x £80,000) and her promised lump sum is £90,000. Amount C for IP 2016 is £690,000 calculated as

 (20 x £30,000) + £90,000.

Example where accrual rate is uneven and lump sum is by commutation

Victor is a member of a defined benefits scheme with an accrual rate of 1/60th of pensionable earnings for each year in the scheme up to 20 years and 2/60ths of final salary for each year of service from 20 to 30 years.

On 5 April 2016 Victor is aged 61, is still in pensionable service, has pensionable earnings of £60,000 and has completed exactly 25 years pensionable service. His normal retirement age under the scheme is 60. There is no late retirement uplift if benefits are taken after age 60. Victor has accrued a pension worth 30/60ths because he has 20 years’ service at 1/60th and 5 years at 2/60ths of his pensionable earnings.

For the purposes of the IP 2016 valuation Victor’s actual age (61) is used as this is more than 60. His promised pension is £30,000 (30/60 x £60,000) with a value for IP 2016 of £600,000 (20 x £30,000).

Amount C - valuing uncrystallised rights under a hybrid arrangement

Section 212(7) and if appropriate section 277 Finance Act 2004

Uncrystallised pension rights are valued on the basis of whichever rights have the highest or higher value.

For example, a member may have rights in an arrangement to take benefits from their fund on a money purchase basis, or take benefits at say 1/120th of pensionable earnings for each year of service. Their money purchase fund and their defined benefits would both be valued as at 5 April 2016 and the higher value would apply for the purposes of IP 2016.

Amount D - valuing uncrystallised rights under relieved non-UK pension schemes on 5 April 2016

Paragraph 13 Schedule 4 Finance Act 2016

Paragraphs 13 to 18 Schedule 34 Finance Act 2004

Where pension savings under a non UK scheme have benefitted from UK tax relief those pension savings may be liable to the lifetime allowance provisions. It follows that these benefits should be included in the valuation of pension savings for IP 2016.

Pension savings under a non-UK pension scheme should only be included in an IP 2016 valuation if:

the scheme is a ‘relieved non-UK pension scheme’, and

the member is a ‘relieved member’.

See PTM113410 for guidance on the meaning of these terms.

The lifetime allowance provisions apply only to that part of the scheme that has befitted from UK tax relief. This is known as the ‘relevant relieved amount’. At any BCE under a relieved non-UK pension scheme’ the amount crystallised by the BCE is limited to the ‘untested portion’ of the ‘relevant relieved amount’. PTM113420 explains how to calculate the ‘relevant relieved amount’ and the ‘untested portion’. But in broad terms the untested portion is that part of the member’s relevant relieved amount that has not been subject to a BCE.

To find amount D assume that a BCE occurs at the end of 5 April 2016 for uncrystallised rights held under a relieved non-UK pension scheme. Amount D is the untested portion for this assumed BCE. Where the member has more than one relieved non-UK pension scheme amount D is the total of the untested portions.

Example

On 6 January 2007 Pravesh became a relieved member of a relieved non-UK pension scheme. That is the only scheme of which he is a member. Pravesh crystallises £300,000 on 6 July 2012. This is Pravesh’s first BCE from the scheme.

At this point Pravesh has been a relieved member of the relieved non-UK pension scheme for five and a half years. Pravesh’s total pension input amounts for the previous six tax years (2006-2007 to 2011-2012) are £400,000 and his pension input amount for the period from 6 April 2012 to 6 July 2012 is £15,000. Immediately before his BCE Pravesh’s relevant relived amount is £415,000 and this is his first BCE his untested portion is also £415,000.

Pravesh needs to value his pension savings for IP 2016. He has had no pension input amounts under the scheme since his BCE in June 2012. At the end on 5 April 2016 Pravesh’s relevant relieved amount is £415,000 and his untested portion is £115,000 (£415,000 less the previous £300,000 BCE).

Amount D for Pravesh is £115,000.

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