

## Fixed Protection 2016 and Individual Protection 2016

On 6 April 2016 legislation was introduced to reduce the Lifetime Allowance (LTA) to £1 million (from £1.25 million in 2015/16) and provide two new transitional protections; namely, Fixed Protection 2016 (FP2016) and Individual Protection 2016 (IP2016). These new transitional protections are similar to Fixed Protection 2014 (FP2014) and Individual Protection 2014 (IP2014).



If you intend to apply for FP2016, make sure that you stopped all contributions or accrual to your pension arrangements before 6 April 2016.

HM Revenue & Customs (HMRC) launched an online digital service for individuals to apply for the new protections from July 2016. Unlike previous protections, there is no formal deadline for applying for the new protections, but if individuals intend to rely on a protected LTA, they will need to have applied and obtained a permanent reference number from HMRC before they start taking any benefits.

This briefing note sets out who can apply for FP2016 and IP2016 and how the new protections work in practice.

### Who can apply for FP2016 or IP2016?

Individuals with pension savings that have no existing forms of protection can apply. Those already protected from the LTA can use the tables below to help them decide whether they can also apply for FP2016 or IP2016.

#### Can I apply for FP2016?

If you currently have:

<b>Primary Protection (PP)</b>	✗	FP2016 cannot be held with PP. PP cannot be given up, but can be lost due to a pension debit.
<b>Enhanced Protection (EP)</b>	✗	FP2016 cannot be held with EP. If you have lost EP, you need to inform HMRC within 90 days of losing it.
<b>Fixed Protection (FP)</b>	✗	FP2016 cannot be held with FP.
<b>FP2014</b>	✗	FP2016 cannot be held with FP2014.
<b>IP2014</b>	✓	If you have IP2014 then FP2016 will remain dormant unless you lose IP2014. IP2014 cannot be given up, but can be lost due to a pension debit.
<b>IP2016</b>	✓	You can apply for FP2016. Your IP2016 will remain dormant unless you lose FP2016.

#### Can I apply for IP2016?

If you currently have:

<b>PP</b>	✗	IP16 cannot be held with PP. PP cannot be given up, but can be lost due to a pension debit.
<b>EP</b>	✓	If you have EP then IP2016 will remain dormant unless you lose EP. If you have lost EP, you need to inform HMRC within 90 days of losing it.
<b>FP</b>	✓	If you have FP then IP2016 will remain dormant unless you lose FP.
<b>FP2014</b>	✓	If you have FP2014 then IP2016 will remain dormant unless you lose FP2014.
<b>IP2014</b>	✗	IP2016 cannot be held with IP2014. IP2014 cannot be given up, but can be lost due to a pension debit.
<b>FP2016</b>	✓	If you have FP2016 then IP2016 will remain dormant unless you lose FP2016.

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If you have FP2016, you will have a protected LTA of £1.25 million. This means you can take pension benefits with a value of up to £1.25 million without incurring an LTA charge.

## How does FP2016 work in practice?

If you have FP2016, you will have a protected LTA of...



This means you can take pension benefits with a value of up to £1.25 million without incurring an LTA charge. If you lose FP2016 (see below), you will only be able to take benefits up to the value of the standard LTA without incurring an LTA charge.

From 6 April 2017 the standard LTA is £1 million (although this may change at a later date). However, 6 April 2016 is the date from which your FP2016 takes effect.

## When are benefits tested against the LTA?

Benefits are tested against the LTA whenever a 'benefit crystallisation event' (BCE) occurs. BCEs occur when your pension benefits are taken (including certain lump sum benefits paid on your death), or when you reach age 75.

Whenever a BCE happens you should give your FP2016 permanent reference number (see below) to your pension scheme administrator. This will mean that your benefits are tested against your protected LTA.

## How do I know what my pension benefits are worth?

The value of your pension fund that is tested against your LTA will depend on the type of benefits that you take.

### For example;

- if you take a 'pension commencement lump sum', (which is the tax-free lump sum you may take when you take your pension), or certain lump sum death benefits paid if you die before reaching age 75, the monetary value of the lump sum equals the amount of your LTA used up;
- if you take a lifetime annuity this uses up an amount of your LTA equal to the cost of the purchase of the annuity;
- if you take a drawdown pension, this uses up an amount of your LTA equal to the aggregate of the amount of tax-free cash plus the market value of any assets, which you designate as available to provide the drawdown pension; and
- if you take an uncrystallised funds pension lump sum (UFPLS) this uses up an amount of your LTA equal to the amount of the lump sum before tax.

In all cases, your scheme administrator must give you a certificate showing how much of your LTA has been used up, as a result of taking benefits.

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Please note that if you lose FP2016, you must tell HMRC that FP2016 no longer applies to you. You have to do this within 90 days of losing your protection.

### Can I lose FP2016?

**Yes. You will lose FP2016 if, on or after 6 April 2016, any of the following events happen:**

- you, or your employer, pay a contribution into a ‘money purchase’ pension arrangement, (for example, a SIPP or a SSAS), or you have ‘relevant benefit accrual’ in a ‘defined benefits’ pension arrangement, (for example, a ‘final salary’ scheme); or
- you set up, (or have set up for you), a new arrangement in the same or another registered pension scheme. Please note that if your employer automatically enrolls you into their pension scheme, this will also lead to a new arrangement being set up. FP2016 will therefore be lost, unless you opt out of the pension scheme within the one-month window permitted under the Pensions Act 2008; or
- you make a transfer that is not a permitted transfer from an existing pension arrangement. Transfers between money purchase arrangements are usually made in permitted circumstances. Transfers to defined benefits arrangements are also permitted in circumstances where you have no say in the transfer (for example, because your current scheme is being wound up); or
- you receive an impermissible transfer into an existing pension arrangement.

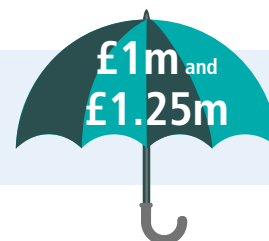
Once FP2016 has been lost, any further BCEs are tested against the standard LTA, prevailing at the time of the BCE. Once you have exceeded the standard LTA, you will be liable to an LTA tax charge (up to 55%) on the excess. However, any BCEs that occurred before you lost your protection are not retrospectively taxed.

Please note that if you lose FP2016, you must tell HMRC that FP2016 no longer applies to you. You have to do this **within 90 days** of losing your protection. If you don’t, you will be liable to a penalty of up to £300 for failure to notify HMRC, and additional penalties of up to £60 per day after the initial penalty has been raised.

**i Your financial adviser (if you have one) or usual Barnett Waddingham Client Manager can provide you with further information regarding the events that lead to the loss of FP2016, and the consequential tax implications.**

### How does IP2016 work in practice?

**If you have IP2016, you will have a protected LTA of between...**



The exact amount of your protected LTA is based on the total value of your pension savings, as at 5 April 2016.

Having IP2016 means you can take pension benefits up to the level of your protected LTA – as shown on your notification from HMRC - without incurring an LTA charge. If you lose IP2016, your LTA will revert to the standard LTA.

As with FP2016, the date from which your IP2016 takes effect is 6 April 2016.

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If you have IP2016, you will have a protected LTA of between £1 million and £1.25 million. The exact amount of your protected LTA is based on the total value of your pension savings, as at 5 April 2016.

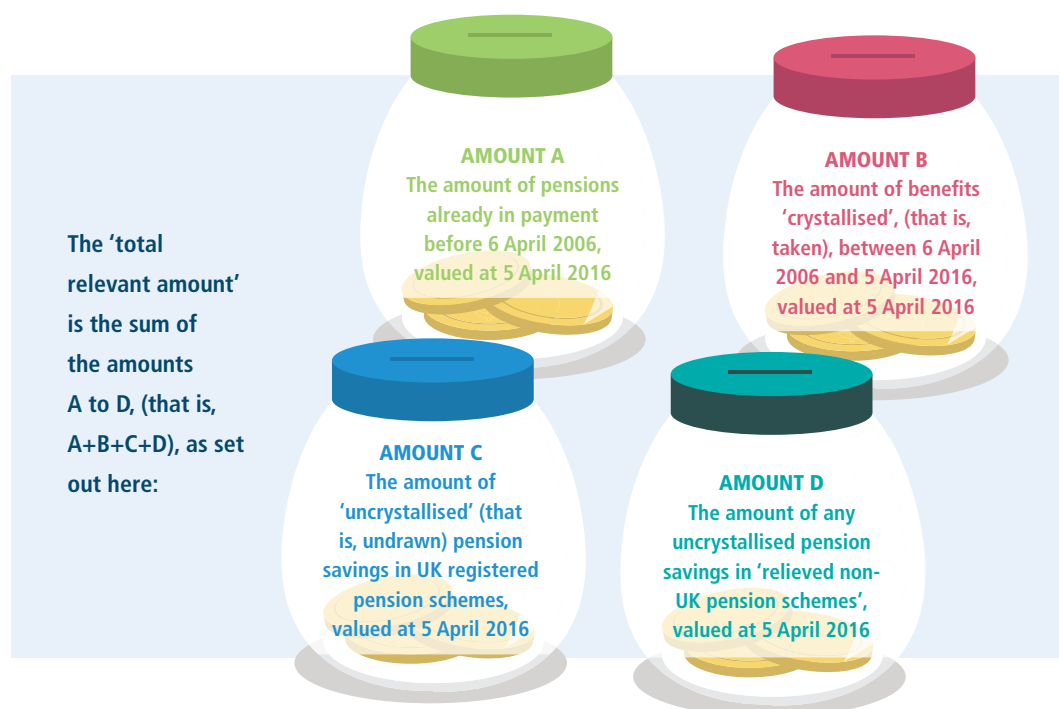
### When are benefits tested against the LTA?

Benefits are tested against the LTA whenever a BCE occurs. BCEs occur when your pension benefits are taken (including certain lump sum benefits paid on your death), or when you reach age 75.

Whenever a BCE happens you should give your IP2016 permanent reference number (see below) to your pension scheme administrator. This will mean that your benefits are tested against your protected LTA.

### How do I calculate what the total value of my pension savings are, as at 5 April 2016?

As well as providing HMRC with basic information, (that is, your name, date of birth and National Insurance number), and confirmation that you did not hold either Primary Protection or Individual Protection 2014 as at 5 April 2016, you will also need to provide HMRC with 'amounts A to D' (as applicable) and their 'total relevant amount'.



You should ensure that these details are both included and correct, because HMRC will reject applications for protection (see below) with incomplete information, or if amounts A to D do not add up to the total relevant amount provided.

Your financial adviser or usual Barnett Waddingham Client Manager can assist you in calculating your total relevant amount for IP2016 purposes, based upon the component parts of your overall pension portfolio.

### Can I lose IP2016?

Potentially, but only where you receive a discharge notice for a 'pension debit' on or after 6 April 2016, as a result of a pension sharing order being passed by the Court, following a divorce.

You must tell HMRC you have received this **within 60 days**, so that they can reduce your total relevant amount accordingly.

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Everyone who protects their pension savings must make a full online application from July 2016, and receive a permanent reference number, to ensure their pension savings are protected from an LTA tax charge.

Where a pension debit occurs on or after 6 April 2017, HMRC will reduce the amount of the reduction by 5% for each full tax year between the time of your pension debit and 5 April 2016.

If a pension debit reduces your IP2016 'bespoke' LTA to £1 million or less, you will lose IP2016 from the effective date of the pension sharing order, and you will revert to the standard LTA. If, after the reduction for the pension debit, your bespoke LTA is still between £1 million and £1.25 million, you will retain IP2016 - but at the lower protected LTA from the effective date of the pension sharing order.

### CASE STUDY 1



Fred has pension benefits valued on 5 April 2016 of £1.3 million. His IP2016 protected LTA is, therefore, £1.25 million. Fred reports a pension debit of £200,000 to HMRC on 1 January 2017. He deducts this amount from his 5 April 2016 benefits valuation of £1.3 million, thereby reducing his protected LTA to £1.1 million. As this amount is above the standard LTA of £1 million at 6 April 2016, this means that Fred retains IP2016.

### CASE STUDY 2



Bert has pension benefits valued on 5 April 2016 of £1.3 million. His IP2016 protected LTA is also, therefore, £1.25 million. Bert reports a pension debit of £350,000 to HMRC on 1 January 2017. He deducts this amount from his 5 April 2016 benefits valuation of £1.3 million; thereby reducing his total relevant amount to £950,000. As this is less than the standard LTA at 6 April 2016 of £1 million, this means that Bert loses IP2016.

#### Therefore, you can only lose IP2016 if either;

- a pension debit reduces your protected LTA to below the level of the standard LTA; or
- the standard LTA increases to a level greater than your protected LTA.

If you lose IP2016, your LTA will revert to the standard LTA and any further BCEs you have will be tested against this.

If the value of your BCEs exceeds the standard LTA, you will be liable for an LTA tax charge on the excess. However, HMRC will not revisit any BCEs that occurred before you lost IP2016, or re-test them against the standard LTA.

## How does the Application Process for FP2016 and IP2016 work?

The earliest date for applying for FP2016 or IP2016 was **6 April 2016** because, as part of the application process, you must provide certain values or make declarations relating to your pension savings as at 5 April 2016.

**Everyone who protects their pension savings must make a full online application from July 2016**, and receive a permanent reference number, to ensure their pension savings are protected from an LTA tax charge.

Applying online can be accessed via: [www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance](http://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance)

Before you apply for either or both forms of protection, you will need to set up an account for HMRC online services. This can be done as part of the application process, and will provide you with your Government Gateway User ID and password, in order to enable you to then apply online for the protection.

***i* Please contact your financial adviser or usual Barnett Waddingham Client Manager, if you require assistance in applying for a permanent reference number for FP2016 and/or IP2016.**

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Please contact your financial adviser or usual Barnett Waddingham Client Manager if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

✉ [sipp@barnett-waddingham.co.uk](mailto:sipp@barnett-waddingham.co.uk)

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