**Core Unit 3 – Running a Workplace Pension Scheme**

**Assignment 3 Notes**

(Part 4 – Allowances)

Recommended Time: 1 Hour

# List the 13 BCEs

Answer should cover:

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| BCE1 | Where funds are designated to provide a member with a drawdown pension |
| BCE2 | A scheme pension coming into payment |
| BCE3 | An increase to a pension in payment exceeding certain permitted annualindexation levels (broadly, the greater of 5% and the increase in the Retail Prices Index) |
| BCE4 | A member of a DC scheme buys a ‘lifetime annuity’ from an insurance company |
| BCE5 | A member of a DB arrangement reaching age 75 without having put all of their scheme pension or lump sum entitlements into payment |
| BCE5a | A member of a money purchase arrangement reaching age 75 with unused funds still in a drawdown pension fund or a flexi-access drawdown fund |
| BCE5b | A member of a money purchase arrangement reaching age 75 with unused funds |
| BCE5c | A member dies before their 75th birthday and unused funds remaining at death are designated, on or after 6 April 2015 but before the end of a two-year period, to a dependant’s flexi-access drawdown pension or nominee’s flexi-access drawdown pension |
| BCE5d | Where a member dies before their 75th birthday and unused uncrystallised funds remaining at death are used to provide entitlement to a purchased dependants’ or nominees’ annuity. The death must be on or after 3 December 2014 with the entitlement arising on or after 6 April 2015 but before the end of a two-year period. |
| BCE6 | The payment of a Pension Commencement Lump Sum or certain other lump sums |
| BCE7 | Payment of most lump sum death benefits on the death of a member |
| BCE8 | The transfer of pension rights to a Qualifying Recognised Overseas Pension Scheme |
| BCE9 | Miscellaneous events as set out in regulations, principally certain lump sum paymentswhich do not fall under BCE6 for technical reasons. |

# 10 marks

1. **Explain when a scheme must issue a member with a Pension Savings Statement and what information must be provided.**

Answer should cover:

Where a member of a scheme has benefits within that scheme that exceed the Annual Allowance (as opposed to the tapered Annual Allowance), the trustees or managers are required to automatically provide a ‘pension savings statement’ within six months from the end of the tax year. No account is taken of any unused relief carried forward or of any pension input the member has in other schemes (neither of which the trustees or manager can be expected to know about).

The trustees or manager must also provide a ‘pension savings statement’ where they believe the individual has flexibly accessed a DC arrangement after 6 April 2015 and the individual’s DC pension input amounts under the scheme for the tax year are more than the Money Purchase Annual Allowance (currently £4,000).

The pensions savings statement will show the pension input amount arising in the scheme during the pension input period, together with the corresponding amounts for each of the previous three tax years.

Members who have not exceeded the Annual Allowance in a particular scheme will not receive a pensions savings statement automatically, but can nevertheless request one. If they do, the pension scheme is required to provide one by the later of (i) three months from the member’s request and (ii) six months from the end of the tax year.

There are also disclosure requirements that apply to employers, who must provide the scheme with sufficient information to calculate the pension input amounts of its employees by 6 July following the end of the tax year.

For the 2010/11 tax year only, employers and pension schemes were given an additional 12 months (i.e. to 6 July 2013 or 6 October 2013 respectively), to provide the required information.

# 10 marks

1. **Explain the Tapered Annual Allowance (AA) and how it works.**

Answer should cover:

For the majority of individuals, the AA remains at £40,000. However, with effect from 6 April 2016, a tapered AA was introduced for high earners, and for some their AA may now be as low as £4,000. This change will mean that many more individuals will be subject to AA tax charges.

To check whether an individual is subject to the tapered AA, two income tests apply:

* Testing whether the threshold income, which is broadly total taxable income, is greater than £200,000, and
* Testing whether the adjusted income, which is broadly taxable income plus all pension savings, is greater than £240,000

For those who pass both the above income tests, the AA reduces by £1 for every £2 of income above £240,000, subject to a minimum AA of £4,000. This is known as the tapered Annual Allowance.

It is not possible for schemes to determine which individual’s will be affected by the tapered AA because both Threshold Income and Adjusted Income include income generated from outside of employment. In practice, trustees or employers could not possibly have full details of an individual’s other taxable income (such as dividend income, other investment income, any rental income, etc.). Individuals may not know these amounts themselves until after the end of the tax year.

**10 Marks**

1. **Write a short note on Individual protection 2014 and 2016.**

Answer should cover:

As a consequence of the reduction in the LTA from £1.5million to £1.25 million from 6 April 2014, individuals could apply for a new form of pension protection called individual protection 2014.

Under individual protection 2014, individuals could protect the value of their accrued benefits as at 5 April 2014, subject to a maximum of £1.5 million.

Applications for individual protection 2014 must have been received by HMRC by 5 April 2017. Unlike either fixed protection or fixed protection 2014, members with individual protection 2014 can still accrue further benefits and pay DC contributions, but the additional benefits above the protected amount will be subject to the Lifetime Allowance charge. Individuals could not apply for individual protection 2014 if they already have primary protection.

Individual protection 2016 was also introduced as a result of the reduction in the standard LTA to £1 million from 6 April 2016. Individual protection 2016 allows individuals to protect accrued benefits at 5 April 2016, providing the value exceeds £1 million, by providing a personalised LTA equal to either the value of the accrued rights at 5 April 2016 or the standard LTA if higher. As with fixed protection 2016, there is no deadline for when individuals can apply for individual protection 2016. However, individuals cannot apply for individual protection 2016 if they already have primary protection or individual protection 2014.

**5 marks**

1. **Detail the conditions that need to be met for a member to have a right to require their scheme to pay their annual allowance tax charge.**

Answer should cover:

The member’s Annual Allowance charge liability for the tax year must exceed £2,000

The pension input amount under the scheme must exceed the Annual Allowance for that year (e.g.

£40,000 in the 2018/19 tax year) – the tapered Annual Allowance is ignored for the “Scheme Pays”

conditions test

The member must make the request by means of an irrevocable election made in a prescribed form and this request must have been received by the scheme on or before the deadline. The deadline for this is 31 July after the end of the following tax year (so for example the election would have to have been made by 31 July 2020, for an Annual Allowance charge relating to the tax year ending 5 April 2019). In relation to the 2011/12 tax year, the first year of operation, the deadline was extended from 31 July 2013 to 31 December 2013.

Where the member has an Annual Allowance liability but one or more of the above conditions is not satisfied, the scheme can decide voluntarily to pay the member’s charge on his/her behalf. As in the case of ‘statutory’ or ‘mandatory’ scheme pays, the member’s benefit entitlement will be reduced appropriately.

**5 marks**

1. Explain how pension rights are valued for lifetime allowance purposes

Answer should cover:

In order to determine whether a person’s total pension rights exceed the Lifetime Allowance, they need to be valued. HMRC has, therefore, laid down a set of criteria for valuing pension rights when they are crystallised:

* For a DC scheme, and provided the money purchase pot is not used to provide a scheme pension, the value of the pension rights is taken as the fund value at the time of crystallisation
* For a DB scheme, the value is the amount of any cash sum taken plus 20 x the starting pension. The value for a money purchase pot used to provide a scheme pension is also 20 x the starting pension

If a person is receiving a pension that was put into payment prior to 6 April 2006 (that is, under the previous tax regime) then this is also tested. Such ‘pre-commencement pensions’ are tested at the time of the first post 6 April 2006 Benefit Crystallisation Event. The value of the pension is then deducted from the member’s Lifetime Allowance. For this purpose, pre- commencement pensions are valued by multiplying the pension in payment at the time of the first Benefit Crystallisation Event by 25.

**10 marks**