These notes refer to the Finance Act 2014 (c.26) which received Royal Assent on 17 July 2014

FINANCE ACT 2014

EXPLANATORY NOTES

INTRODUCTION

***Section 44* and *Schedule 4*: Transitional Provision for New Standard Lifetime Allowance for 2014-15 Etc**

Details of the Schedule

Part 1

2. Paragraphs 1 to 5 set out who can notify HMRC that they intend to rely on IP14, how their pension rights are valued and the level of protected lifetime allowance that they will be entitled to.

3. Paragraph 1(1) provides that individuals can notify HMRC that they intend to rely on IP14 if they have pension rights (their "relevant amount", as defined in paragraph 1(5)) of greater than £1.25 million on 5 April 2014 and they do not have primary protection as set out in paragraph 7 of Schedule 36 to FA2004, and that notice must be given before 6 April 2017.

4. Paragraph 1(2) provides that where an individual has IP14 their standard lifetime allowance is the greater of their relevant amount (subject to an overall limit of £1.5 million) and the standard lifetime allowance from time to time.

5. Paragraph 1(3) provides that where an individual who has notified HMRC that they intend to rely on IP14 has one of three specified existing LTA protections, then as long as one of those more beneficial protections is valid, IP14 does not apply.

6. Paragraph 1(5) defines the relevant amount as the sum of amounts A to D which are defined in paragraphs 2 to 5. This is the value of the individual's pensions in payment plus their pension savings, not yet taken, that have benefited from UK tax relief.

7. Paragraphs 1(6) to (9) deal with the position where the pension rights of an individual with IP14 are subject to a pension debit, as a result of the sharing of the individual's pensions rights following a divorce, on or after 6 April 2014. In such a case, the individual's relevant amount is reduced by the amount of the debit. However for IP14 purposes the amount of debit is reduced by 5 per cent for each complete tax year between 5 April 2014 and the date of the pension debit. The reduction is intended to reflect any increase in the individual's total pension rights between 5 April 2014 and the time of the pension debit. Where the individual's relevant amount is reduced to below £1.25 million as a result of the pension debit, they will no longer be entitled to rely on IP14.

8. Paragraph 2 sets out how to calculate amount A, which is the value of the pensions that the individual was receiving on 6 April 2006 (A-day), that is the day when Finance Act 2004 including the lifetime allowance first applied from.

9. Paragraphs 2(2) to (5) apply where a benefit crystallisation event ('BCE') has occurred, in respect of the individual on or before 5 April 2014, for example when an individual has taken some of their pension benefits. In this case Amount A is 25 times the annual

rate of the pre A-day pension immediately before the BCE, multiplied by a factor of £1.5 million (the standard lifetime allowance for 2013-14) over the standard lifetime allowance at the date of the BCE. The factor is applied to take account of any change in the standard lifetime allowance since the BCE, so that that percentage of the standard lifetime allowance used up by the pre A-day pension is the same on 5 April 2014 as it was on the date of the BCE.

10. Paragraphs 2(6) and (7) apply where no BCE has occurred in respect of the individual since A-day, in which case amount A is 25 times the annual rate at which the pre A-day pension is payable on 5 April 2014.

11. Paragraphs 2(8) and (9) define expressions used in subparagraphs (2) to (7).

12. Paragraph 3 sets out how to calculate amount B, which is the value of any BCEs in respect of the individual occurring on or before 5 April 2014. Amount B is the aggregate of the value of each BCE, multiplied by a factor of £1.5 million (the standard lifetime allowance for 2013-14) over the standard lifetime allowance at the date of the BCE.

13. Paragraph 4 sets out how to calculate amount C, which is the value of any uncrystallised pension rights that the individual has in a registered pension scheme on 5 April 2014. Amount C is calculated in accordance with the method set out in section 212 of Finance Act 2004.

14. Paragraph 5 sets out how to calculate amount D, which is the value of any uncrystallised pension rights that the individual has under relieved non-UK pension schemes on 5 April 2014. To calculate amount D, it is assumed that there is a BCE in respect of those rights at that date and the amount that would have been crystallised in accordance with paragraph 14 of Schedule 36 to Finance Act 2004.

15. Paragraph 6 provides that expressions used in Schedule Y have the same meaning as in Part 4 of Finance Act 2004.