

**EXPLANATORY MEMORANDUM TO**  
**THE REGISTERED PENSION SCHEMES (STANDARD LIFETIME AND ANNUAL**  
**ALLOWANCES) ORDER 2010**

**2010 No. 922**

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.
2. **Purpose of the instrument**
  - 2.1 This Order sets the rate of the standard lifetime allowance and the annual allowance for the tax years 2011-12 to 2015-16.
  - 2.2 The standard lifetime allowance sets an upper limit on the total amount of pension benefits a person can take from their registered pension schemes without incurring a tax charge known as the lifetime allowance charge.
  - 2.3 There is also an annual allowance which sets an upper limit on the amount by which the value of an individual's pension fund (i.e. a combination of the increase in value of savings in the fund at the start of the year together with their and their employer's contributions made during the year) can increase in a year. If an individual exceeds this limit, they incur a tax charge known as the annual allowance charge on the excess.
3. **Matters of special interest to the Select Committee on Statutory Instruments**
  - 3.1 None.
4. **Legislative Context**
  - 4.1 The standard lifetime allowance and annual allowance are two major components of the tax regime for registered pension schemes which came into force on 6th April 2006. These allowances are the two key controls on the maximum tax relief available to an individual on their savings in registered pension schemes.
  - 4.2 The standard lifetime allowance for the tax year 2006-07 was set at £1.5 million by section 218(2) Finance Act 2004 and the annual allowance for that year was set at £215,000 by section 228(1) of the same Act. Sections 218(3) and 228(2) provide that the standard lifetime allowance and annual allowance for each subsequent tax year would be set by Treasury Order and that the amount would not be less than the allowance for the immediately preceding year.
  - 4.3 The levels of the standard lifetime allowance and annual allowance for tax years 2007-08 to 2010-11 were set by The Registered Pension Schemes (Standard Lifetime and Annual Allowances) Order 2007 (SI 2007/494).
  - 4.4 This Order sets out the levels of the standard lifetime allowance and the annual allowance for the five years following 2010-11. It keeps them at £1.8 million and £255,000 respectively throughout the period covered by this Order.

## **5. Territorial Extent and Application**

5.1 This instrument applies to all of the United Kingdom.

## **6. European Convention on Human Rights**

6.1 As the instrument is subject to the negative resolution procedure and does not amend primary legislation, no statement is required.

## **7. Policy background**

- *What is being done and why*

7.1 The Government wants to encourage today's workers, who are tomorrow's pensioners, to save in pension schemes for an income in later life, and offers tax incentives to do so. The amount of tax relief given to encourage saving for an income in later life is not open-ended and the legislation imposes an upper limit on the amount of benefits an individual can obtain from their registered pension schemes without further charge to tax.

7.2 When the current pensions tax regime came into effect on 6th April 2006, the standard lifetime allowance was set at a level that broadly replicated the benefit limits for occupational pension schemes that applied under the previous regime, using the valuation assumptions of the new regime. Similarly, the annual allowance at 6th April 2006 replicated limits on annual contributions that applied under the previous regime. Tax charges apply where these allowances are exceeded.

7.3 The allowances are set at such a level that most pension scheme members are not affected, as both their benefit levels and the increases in their rights will be well within those limits. Only those relatively few individuals with the highest levels of pension saving are affected. This allows the Government to target the incentives in the pensions tax regime effectively and to keep the cost of those incentives within fiscal projections.

7.4 The levels of the standard lifetime allowance and annual allowance for the tax year 2006-07 were published in Finance Act 2004. Pension planning is long-term and to give certainty for a reasonable period ahead, the Government published the levels of these allowances which would apply for the four following tax years, as set out in The Registered Pension Schemes (Standard Lifetime and Annual Allowances) Order 2007 (SI 2007/494).

7.5 The Government confirmed that the levels of the two allowances would be reviewed at a future date. At the Pre-Budget Report in November 2008, the Government announced that the allowances are to remain at their 2010-11 levels for a further five tax years. This will ensure that the cost of the reliefs remains within fiscal projections during a period of economic uncertainty.

## **8. Consultation outcome**

No consultation was undertaken on this measure.

## **9. Guidance**

The standard lifetime allowance and annual allowance levels for 2011-12 to 2015-16 were publicised at the time of the Chancellor's Pre-Budget Report. The figures will be included in the HMRC guidance manual the Registered Pension Schemes Manual in due course ([www.hmrc.gov.uk/manuals/rpsmmanual/index.htm](http://www.hmrc.gov.uk/manuals/rpsmmanual/index.htm)).

## **10. Impact**

10.1 The impact on business, charities or voluntary bodies is limited to those that are involved in running pension schemes. If they are, they will have to ensure that their processes pick up cases where the new allowance levels are exceeded, as they are required to account for tax on any excesses. As the limits are a continuation of limits already announced for 2010-11, this should involve no more than minimal changes to computer software and administrative procedures. The standard lifetime allowance and annual allowance apply to all registered pension schemes.

10.2 The impact on the public sector is the same as on the private sector.

10.3 An Impact Assessment has not been prepared for this instrument as it has a negligible impact on business, charities or voluntary bodies.

## **11. Regulating small business**

11.1 The legislation applies to small business only if they are involved in running registered pension schemes.

11.2 These provisions relate to limits on tax relief for individuals, and therefore should apply to small business in the same way as anyone else. It is not appropriate to exempt small business from these provisions.

## **12. Monitoring & review**

We will continue to monitor the amount given to pension schemes in tax relief. The levels of the standard lifetime allowance and lifetime allowance will be reviewed again at a future date.

## **13. Contact**

Sue Marsh at HM Revenue & Customs (tel: 0115 974 3068 or email: [pensions.policy@hmrc.gsi.gov.uk](mailto:pensions.policy@hmrc.gsi.gov.uk)) can answer any queries regarding the instrument.