Kingfisher Pension Scheme

Pension Tax Changes from April 2016

The Budget on 8 July 2015 announced a number of significant and complex changes to pension taxation. The purpose of this note is to help you to understand the changes and to give you sufficient time to plan and take action.

The July 2015 Budget announcements' key facts are:

- The Lifetime Allowance is to be reduced from £1.25million to £1million with effect from 6 April 2016.
- For the 2015/16 tax year and because pension input periods are being aligned to the tax year, there is a one-off opportunity for you to build larger than normal tax-relieved pension savings, of up to £80,000.
- From 2016/17, the Annual Allowance of £40,000 per annum will be reduced on a tapered basis down to £10,000 per annum for those with 'Adjusted Income' over £150,000, but the complicated rules mean those earning less (e.g. from £110,000) may also be affected.

As a result of this change, HM Revenue & Customs (HMRC) will be introducing two new forms of protection to individuals whose pension savings have already reached £1million or above by 5 April 2016. These forms of protection are called Fixed Protection 2016 and Individual Protection 2016 (simply referred to as "FP2016" and "IP2016").

Pension Tax Changes from April 2016

As a reminder, here are some of the key facts:

KEY FACTS

Individual Protection 2016 (IP 2016)

- Members who claim IP2016 will have a protected personalised Lifetime Allowance equal to the value of their pension savings on 5 April 2016, subject to an overall maximum of £1.25 million.
- Members must have pension savings of **at least £1 million** on 5 April 2016 to apply.
- Pension contributions can continue to be paid. However, the value of any pension savings above the protected Lifetime Allowance will be liable to the Lifetime Allowance tax charge of 55%.
- It is possible to apply for IP2016 and if you already have FP2016, Fixed Protection 2012, Fixed Protection 2014 .
- It is not possible to apply for IP2016 if you already have Primary or Enhanced Protection

Fixed Protection 2016 (FP2016)

- A Member who wishes to apply for FP2016 will retain a Lifetime Allowance of £1.25 million, but on condition that (subject to very limited exceptions) you do not make any further pension savings. Contributions therefore need to cease by close of play on the 5th April 2016 i.e. the current tax year.

There will be no application deadline for these protections

Annual Allowance Changes

The Annual Allowance which governs how much can be saved into a pension each year and still receive tax relief — is reducing, but not in a clear-cut way, as has been the case at previous budgets.

This communication provides an overview of some of the key questions however for further information please visit www.gov.uk and search “Tax on your private pension contributions”.

SAVING FOR YOUR FUTURE

Lifetime Allowance Q&A

Q What is the Lifetime Allowance?

The Lifetime Allowance is a limit on the value of benefits from your pension schemes, whether lump sums or retirement income, that can be paid out without triggering an extra tax charge of normally 55%.

If when you come to retire (or "crystallise your pension savings") and the value of your benefits is more than the Lifetime Allowance you will have to pay a tax charge on the excess.

Q How do I know if I am near the Lifetime Allowance?

You should consider the value of all your personal and company pensions, however you do not need to take any State Pension into account. The percentage of Lifetime Allowance used is dependent on the capital value of your pension benefits.

There are different ways to calculate the capital value of your pension benefits depending on the source. Broadly, the rules are as follows for any benefits which you have built up but which are not yet in payment:
I. Defined benefit (or final salary) benefits are given a capital value by multiplying the annual pension by 20;
II. The value of defined contribution (or money purchase) benefits is the total fund value;

Any benefits (pensions or lump sums) already paid or in payment will normally count towards the Lifetime Allowance too. The rules for valuing such benefits are complex – if relevant to you, please refer to HMRC's guidance, speak to your Scheme's administrator or take independent financial advice ("IFA").

Q What happens if I exceed the Lifetime Allowance?

If you exceed the Lifetime Allowance you can:
- Take the excess as a lump sum before age 75, less a 55% Lifetime Allowance charge, provided you have the Company and Trustee consent; or
- Use the excess, less a 25% Lifetime Allowance charge, to provide pension

Remember, pension income is taxable. For example, the combination of 40% income tax and a 25% Lifetime Allowance charge could be broadly equivalent to a 55% Lifetime Allowance charge.

Q How can I protect myself against the Lifetime Allowance tax charge?

When the Lifetime Allowance was introduced, and each time it was reduced, it was possible to apply for protection against a potential Lifetime Allowance charge. If you have applied, you will have received a certificate from HMRC. Please note, if you have enhanced or primary protection you will have only one certificate.

Lifetime Allowance Q&A

What are the various other types of protection?

HMRC has in the past allowed individuals to claim other forms of protection, such as primary, enhanced and fixed. The deadlines for applying for these forms of protection have now passed.

There are various types of protection which have been made available in the past or are/will be available to you. These are as follows.

- **Primary Protection:** You will have had to apply for this before 6 April 2009.
- **Enhanced Protection:** You will have had to apply for this before 6 April 2009.
- **Fixed Protection 2012:** You will have had to apply for this before 6 April 2012.
- **Fixed Protection 2014:** You will need to have had to apply for this before 6 April 2014.
- **Individual Protection 2014:** You will be able to apply for this from 6 April 2014 until 6 April 2017.
- **Fixed Protection 2016:** You will be able to apply for this from 6 April 2016.
- **Individual Protection 2016:** You will be able to apply for this from 6 April 2016

When can I apply for Fixed Protection 2016 and/or Individual Protection 2016?

Legislation for both the reduction in the LTA and the protection regimes (fixed protection 2016 (FP2016) and individual protection 2016 (IP2016)) will be delivered in Finance Bill 2016. As a result it will not be possible for you to apply for protection until after April 2016.

This means that individuals cannot notify HMRC of their intention to rely on FP2016 in advance. Individuals who want to rely on FP2016 need to start thinking about what arrangements they need to make to stop accruing benefits after 5 April 2016.

The application process for FP2016 and IP2016 will be online and will require you (or your authorised representative) to provide similar information and declarations as for previous forms of protection. The online system will provide a response to the notification along with a protection reference number. You will then need to provide this protection reference number to their pension scheme in order to take their benefits using a protected LTA. For these protection regimes, no certificate will be issued.

Is there a deadline to apply for FP2016 and/or IP2016?

There will be no application deadline for these protections. However you will need to apply for protection before you take your benefits as you will need the HMRC reference number if you want to rely on the protection.

This means that if you want to rely on IP2016 or FP2016, then you should apply before you take any benefits on or after 6 April 2016. This is so that those benefits can be tested against the higher Lifetime Allowance (LTA) provided by these protections rather than the £1 million standard LTA. This applies even when the benefits being taken are worth less than £1 million.

If the individual doesn't have the reference number then the amount of the benefit crystallisation event will be expressed as a percentage of £1 million, rather than the higher protected LTA.

Lifetime Allowance Q&A

If you wish to apply for Fixed Protection 2016 you must stop contributing into all your pension arrangements before the start of the new tax year. This means the last contribution you will make into the Kingfisher Pension Scheme should be in your March 2016 salary.

Q How will I be able to apply for either protection?

HMRC is introducing a new online self-service for pension scheme members to apply for protection and this service will be available for members to use from July 2016. Members will no longer receive a LTA protection certificate, instead once they have successfully applied for protection the online service will provide them with a reference number which they will need to keep.

Q What if I need to apply for the protection before July 2016?

There will be a period between the new protection regimes becoming available in April 2016 and the introduction of the new online self-service in July 2016. For this period HMRC will introduce an interim process for pension scheme members who want to take benefits before the introduction of the new online service.

You will therefore be able to write to HMRC between April 2016 and July 2016 and they will check the details of your protection and respond to you in writing. This can then be presented to the scheme administrator in advance of the full application being made after July 2016.

Q I want to apply for either form of protection. How should my pension savings be valued?

How your pension savings are valued will differ depending on what they consist of. There are different methods for valuing the following types of pension savings:

- any pension that you started to receive before 6 April 2006,
- 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,
- pension savings that you have not yet taken from your UK pension scheme, and
- pension savings in certain overseas pension schemes.

Q When do my savings have to be valued?

You need to obtain the value of **all** your pension savings at 5 April 2016.

Q How do I obtain a valuation?

You can ask the Kingfisher Group Pensions Department or your other pension scheme providers to give you a value for your pension savings on 5 April 2016 or tell you (if you are not already aware of it) what your annual rate of pension was on that date.

Please note that some scheme administrators may refuse to provide this as they are not obliged to.

Fixed Protection 2016 Q&A

Q Who can apply for FP2016?

Anyone who does not already have fixed protection, primary protection or enhanced protection can apply for FP2016. You do not need to have already built up pension savings of more than £1 million to apply. But bear in mind that a condition of FP2016 is that (broadly) you do not make further pension savings

If you want to apply for FP2016 then you must meet certain conditions. These are that on 6 April 2016 you

- are a member of a registered pension scheme
- do not have primary protection
- do not have enhanced protection, and
- do not already have fixed protection.

Q What happens once I have received the FP2016?

Once you have FP2016 there are restrictions on what you will be able to do with your future pension savings. For example, you will normally need to stop building up benefits under every registered pension scheme that you belong to by 5 April 2016.

It is therefore important you give your employer, the Kingfisher Group Pensions Team and any other pension arrangements enough notice should you need to stop your active membership before 5 April 2016.

If you leave this notification to the last minute then your accrual or contributions may not cease before 6 April 2016. If this does occur then you may not be able to rely on fixed protection going forward. As a result your Lifetime Allowance will revert back to the standard Lifetime Allowance of £1 million, and if your benefits are worth more than this when you take them you will be liable to a Lifetime Allowance charge.

Q What are the conditions for FP2016?

You will lose your FP2016 if you:

- have a contribution paid to any of your money purchase pension arrangement;
- build up new benefits in a defined benefit or cash balance pension pot above a set amount;
- join a new pension scheme - unless you are only transferring pension savings from one of your existing schemes into the new scheme; or
- start saving in a new pension pot (including being auto-enrolled) either under an existing pension scheme or a new pension scheme

Please note a contribution paid to a money purchase arrangement before 6 April 2016, but which falls in a Pension Input Period that ends on or after 6 April 2016, will not cause the loss of FP2016.

In terms of the KPS-MP, you must ensure that the final contribution you pay into the KPS-MP is the contribution deducted from your March 2016 pay. You will therefore need to ensure you provide the payroll department sufficient notice to cease your contributions in good time.

Q What information do I need to provide?

You will need to provide HMRC with

- a declaration that they do not hold primary protection
- a declaration that they do not hold enhanced protection
- a declaration that they do not hold fixed protection
- a declaration that they do not hold fixed protection 2014

Individual Protection 2016 Q&A

What is IP2016 2016?

In broad terms, Individual Protection will be available to you if, as at 5 April 2016, the value of your pension savings exceeds £1 million. It will entitle you to a personalised Lifetime Allowance equal to the value of your savings at that date (capped at £1.25 million).

Examples of when Individual Protection may be useful

Individual Protection may be useful for a member who intends to continue contributing to a pension arrangement as it allows them to keep a Lifetime Allowance greater than £1 million. This means that the individual will be able to benefit from the higher Lifetime Allowance and if exceeded will pay a Lifetime Allowance charge based on the personalised Lifetime Allowance rather than the new £1m Standard Lifetime Allowance.

It may also be useful for someone who missed the previous application process of other forms of pension protection. For example, an individual with pension savings worth £1.2 million at 5 April 2016 will be able to have £1.2 million as their individual Lifetime Allowance through Individual Protection. Or someone with pension rights worth £1.3 million will be able to have £1.25 million as their personalised Lifetime Allowance, helping them to reduce their Lifetime Allowance charge.

What will be my protected Lifetime Allowance under Individual Protection?

If your application for IP2016 is successful, you will be given a protected Lifetime Allowance equal to the value of your pension savings on 5 April 2016, subject to a maximum of £1.25 million.

What is the maximum tax free lump sum I can take, if I have Individual Protection?

The maximum tax-free lump sum you can take from 6 April 2016 will be 25% of the uncrystallised value of your protected Lifetime Allowance, subject to what the rules of your pension scheme(s) allow.

What are the restrictions on future savings if I have IP2016?

There are no restrictions. But any pension savings above your protected personalised Lifetime Allowance will be liable to the Lifetime Allowance tax charge.

What happens if my pension savings exceed my personalised Lifetime Allowance?

You will be subject to the Lifetime Allowance charge on the excess when you take your benefits.

What happens if the Standard Lifetime Allowance goes above my personalised Lifetime Allowance?

If at some time in the future the level of the Standard Lifetime Allowance is higher than the level of your personalised Lifetime Allowance, your IP2016 will cease to apply and you will revert to the higher Standard Lifetime Allowance.

What information do I need to provide?

You will need to provide HMRC with:

- details of your pension saving amount
- a breakdown of your pension saving amounts (as at 5 April 2016) consisting of
  - Amount A: Any pensions in payment which commenced before 6 April 2006
  - Amount B: Any benefits that have been crystallised since 6 April 2006
  - Amount C: Any pension savings that have not been crystallised
  - Amount D: Non UK Pension Rights
- a declaration that you do not hold primary protection
- a declaration that you do not hold Individual Protection 2014 (IP2014)

Annual Allowance Q&A

Q What is the Annual Allowance?

An Annual Allowance for pension savings applies each year, which is based on a period of 12 months. In other words, it is the amount of pension contributions available on pension savings for each tax year. The Annual Allowance is currently £40,000 (correct as at 2015/16 tax year). This is the maximum you or someone else, e.g. the Company, can contribute to all your pensions in one year, without incurring a tax charge. It also includes any benefits accrued in a final salary pension.

One-off opportunity to build larger than normal tax-relieved pension savings in 2015/2016 tax year

For the 2015/16 tax year, there is a one-off opportunity for you to build pensions savings of up to £80,000, rather than the previously expected maximum of £40,000. In practical terms, this means you can build pension savings of up to £80,000 in respect of the '1st period', and any unused amounts can be carried over to the '2nd period', subject to a maximum of £40,000.

In addition to these amounts the normal 'carry forward' rules continue to apply for unused allowances from the previous 3 tax years.

Here's a few simple examples:

Andy has pension savings of £51,000 in the 1st period (6th April 2015 to 8th July 2015). As this is within the allowance of £80,000, Andy can transfer the unused amount of £29,000 to the 2nd period (9th July 2015 to 5th April 2016). This means that for the 2015/16 tax year Andy can have tax-relieved pension savings of £80,000 i.e. £51,000 (for the 1st period) + £29,000 (for the 2nd period).

Brenda has pension savings of £33,000 in the 1st period. As this is within the allowance of £80,000, Brenda can transfer the unused amount, up to the maximum of £40,000, to the 2nd period. This means that for the 2015/16 tax year Brenda can have pension savings of £73,000 i.e. £33,000 (for the 1st period) + £40,000 (for the 2nd period).

Q Why has this one-off opportunity become available?

HMRC wants to ensure that future pension savings (from all sources) are measured over a complete tax year. This means that pension savings in 2015/16 will be measured over two periods:

- The '1st period' covers the period 6th April 2015 to 8th July 2015 (the date of the Budget)
- The '2nd period' covers the period 9th July 2015 to 5th April 2016

For the tax years thereafter, pension benefits (from all sources) will be measured over the whole tax year i.e. 6th April to 5th April.

Annual Allowance Q&A

Q How do I maximise on this one-off opportunity?

If you wish to maximise your tax-relieved pension savings for 2015/16 you will need the following information:

- Total contributions (including employer contributions) paid between 6th April 2015 and 8th July 2015
- Estimated total contributions (including employer contributions) likely to be made between 9th July 2015 and 5th April 2016. This will enable you to estimate your allowance for the 2nd period, and hence whether you are able to increase your pension savings.
- Unused allowances amounts under the normal 'carry forward' rules for the previous 3 tax years.

You can increase your member contributions at any time, if you are already on the maximum rates of employee and employer contributions you can make additional pension savings by increasing your contribution percentage or paying a monetary amount as an Additional Voluntary Contributions. Please note all contributions must be paid through your salary.

If you would like to consider taking this action please contact the Kingfisher Group Pensions Team.

Q What is the Tapered Annual Allowance effective from 2016/2017?

From 6 April 2016, if your 'Adjusted Income' exceeds £150,000, then your Annual Allowance will be gradually reduced from £40,000 to £10,000, with £1 of allowance lost for every £2 of Adjusted Income over £150,000 (in a similar fashion to the reduction of the personal allowance on earnings over £100,000).

'Adjusted Income' is a new definition of earnings and takes into account **all** taxable earnings but adds in the value of pension savings made during the year.

To calculate Adjusted Income, take your total taxable income (i.e. all income such as salary, bonus, LTIP, P11D benefits, interest on deposits, dividends, rental income etc.) less any items allowable for tax relief (such as pension contributions, charity donations etc.), and add to this the total contributions paid by the Company and your own DC contributions including AVCs plus any contributions you have paid into any external pension arrangements.

However, only those with 'Threshold Income' (another new term that describes taxable income ignoring the increase in value of pension benefits) above £110,000 will be affected. Anyone with 'Threshold Income' below £110,000 will be unaffected and will retain their Annual Allowance of £40,000.

Q I earn less that £150,000 – am I in the clear?

No, it would be wrong for people earning less than £150,000 to assume they don't have to worry about the taper.

This is because what is tested against the taper is "adjusted income", which captures much more than salary, and is likely to affect people earning £110,000 or more. Adjusted income includes all taxable earnings, such as income from property, interest on savings and dividends. Even what your employer pays into your pension is counted.

Annual Allowance Q&A

Here are some examples of how to work out your threshold and adjusted income:

Example 1

Threshold Income

Employer Basic Salary Bonus P11D e.g. Car/Private Health	£150K
Personal Savings interest Investment Income Rental Other Employments	Plus £5K
Less deductions Employee pension contributions Payroll charitable giving	Less £10K
THRESHOLD INCOME OVER £110K	**TOTAL £145K**

Adjusted Income

Threshold Income	£145K
Employee & Employer Pension savings (HMRC measure)	£35K
Total	£180K
ANNUAL ALLOWANCE	**£25K**

Example 2

Threshold Income

Employer Basic Salary Bonus P11D e.g. Car/Private Health	£112K
Personal Savings interest Investment Income Rental Other Employments	Plus £1K
Less deductions Employee pension contributions Payroll charitable giving	Less £5K
THRESHOLD INCOME BELOW £110K	**TOTAL £108K**

THRESHOLD INCOME UNDER £110K

NO NEED TO LOOK AT ADJUSTED INCOME

ANNUAL ALLOWANCE £40K

Annual Allowance Q&A

Whether or not you are affected will depend on number of things, including your level of pay, any income you receive from outside your employment (e.g. income from rental properties or dividends), and the amount you and the Company pay into the Scheme.

Everyone's circumstances will be different of course, so the Company will not be able to determine whether you will be tapered as we do not have knowledge of any other income you receive outside of your Kingfisher employment.

The table below provides some other broad examples of how various income levels might affect the Annual Allowance:

Threshold Income	Adjusted Income	Tapered Annual Allowance
£100,000	N/A	N/A
£110,000	£134,200	N/A
£115,000	£140,300	£39,850
£150,000	£183,000	£23,500
£170,000	£207,400	£11,300

Q What action do I need to make?

These changes make pension planning both more important and more complicated because for many it may be difficult to determine 'Adjusted Income' precisely until the tax year has actually ended. This could lead to a wrong estimate of the Annual Allowance for that tax year, which could trigger a tax charge.

Whilst this change doesn't come into effect until 6 April 2016, you may wish to consider the likely level of your 'Adjusted Income' and whether this might result in a reduced Annual Allowance for you.

Carry forward of unused Annual Allowance

If you do trigger an Annual Allowance tax charge in any given year you may be able to bring forward any unused Annual Allowance from the three preceding tax years. Kingfisher Group Pensions Team, upon request, can send you a statement be able to advise you further.

Q Could my Annual Allowance be impacted any further?

Yes, if you have already chosen to access your DC benefits flexibly (for e.g. flexi-drawdown) then your Annual Allowance will automatically be reduced to £10,000 and will remain at this amount for you. If you have exercised your DC fund flexibly via a flexi-drawdown or as an UFPLS, you must ensure you advise the Kingfisher Group Pensions Team.

You should still take this announcement into account if

- you are a few years away from retirement;
- your pension contributions are substantial;
- you are experiencing good investment growth;
- your adjusted income is above £150,000 and/or
- your threshold income is above £110,000.

You may inadvertently breach the Lifetime Allowance sometime in the future and this could result in you paying a tax charge of up to 55% on any excess above the Lifetime Allowance if taken as a lump sum.

Please therefore ensure you have reviewed your current pension arrangements so you do not unintentionally breach the Lifetime Allowance or Annual Allowance.

To help here are some useful tips:

1. Maximise your current allowance with carry forward

There is a one-off opportunity for you to maximise any unused pension allowance for the three preceding tax years attracting tax relief at their highest marginal rate. The maximum possible contribution you could make before 5 April 2016 would be £180,000 gross. This is calculated as £50,000 for the tax years 2012-13 and 2013-14, with a further £40,000 allowance for tax years 2014-15 and 2015-16. For an additional rate taxpayer at 45 per cent, the net amount would equate to £99,000.

2. Check your Lifetime Allowance and take steps to protect it

In April, the Lifetime Allowance — the maximum amount an individual can put tax-free into their pension — is due to fall from £1.25m to £1m.

3. Consider how to treat other sources of income

Remember all of the following count towards adjusted income: pension contributions from your employer (and potentially, your own pension contributions); profits from owner-managed businesses; investment income not contained within a tax wrapper such as an ISA; income drawn down from pensions; income from property, savings; dividends; taxable lump sum death benefits (from 5 April 2016).

Finally before making any decision you should also refer to the guidance on HMRC's website at https://www.gov.uk/ and search "tax on private pension contribution" for Annual Allowance information and Lifetime Allowance information. We also recommend that you take Independent Financial Advice.

This fact sheet is based on our understanding of current and proposed legislation as at 1 February 2016, which is subject to change. It is a brief summary that cannot cover all relevant terms. Any tax benefits or charges will depend on your circumstances. Some of the options available to you may require Company and Trustee consent. If you are at all unsure you should seek independent financial advice.