

A Summary of the Pension Tax Changes and the New Tax Allowances Effective from 6 April 2024

Background

The Finance Bill 2023-24 was published on 29 November 2023 containing 100 pages devoted to pensions. This, along with subsequent guidance issued by HMRC, has now provided a lot of the necessary detail as to the new allowances that will be introduced, as well as to the operation of the changes effective from 6 April 2024.

This is a brief summary of the changes:

The Life Time Allowance (LTA)

Is to be abolished from 6 April 2024. Two new 'allowances' are being introduced:

Lump Sum Allowance

This is a cumulative limit of £268,275 (which is 25% of the current Life Time Allowance of £1,073,100) being the tax-free part of any lump sums taken payable across all registered pension schemes.

Lump sums for this purpose are Relevant Lump Sums being: pension commencement lump sums, uncrystallised funds pension lump sums taken from Defined Contribution funds, (not trivial commutation, small pot lump sums, or winding up lump sums).

This means that each time a lump sum is taken, any tax-free element is tested against the available 'Lump Sum Allowance'. Tax-free lumps of broadly 25% of a benefit per scheme may be taken, up to an overall limit of £268,275. Any lump sum greater than £268,275 is taxable as the recipient's income, at their marginal tax rate, unless the member has protection.

Lump Sum and Death Benefit Allowance

This is the cumulative limit of £1,073,100 (current Life Time Allowance) on the total amount of tax-free lump sums payable to or in respect of an individual across all registered pension schemes.

Lump sums for this purpose are Relevant Lump Sums being: pension commencement lump sums, uncrystallised funds pension lump sums, serious ill health lump sums, or lump sum death benefits (not trivial commutations).

This means that whenever a lump sum is taken or a lump sum death benefit paid, it will use up the available 'Lump Sum and Death Benefit Allowance'. Any lump sums in excess of £1,073,100 will be taxed as the recipient's income, at their marginal tax rate.



Pension Commencement Lump Sums

Three limits will apply and the lowest one will bite:

25% of the value of the benefit being 'crystallised' Available 'Lump Sum Allowance' £268,275 (25% of £1,073,100) Available 'Lump Sum and Death Benefit Allowance' £1,073,100.

Tests are to be made against both new 'allowances'.

Pension Commencement Excess Lump Sum (PCELS)

A new authorised lump sum called a 'Pension Commencement Excess Lump Sum' (PCELS) has been introduced. This means an individual can take lump sums in excess of the new allowances, but if they do, any sums taken above the LSA and LSDBA will be taxed at an individual's marginal tax rate.

LTA Protections and Application Deadline for New LTA Protections

Any individuals holding scheme specific protections or valid HMRC certificated LTA protections will not lose those protections. But, any lump sums taken above the protected amount will be taxed at an individual's marginal tax rate.

New applications to HMRC for Individual Protection (IP2016) and Fixed Protection (FP2016) will close on 5 April 2025. After this date individuals will no longer be able to apply for any LTA protections.

Benefit Crystallisation Events (BCEs)

The majority of the current Benefit Crystallisation Events (BCEs) cease to apply from 6 April 2024, and there will be no automatic BCE tests at age 75.

However, currently if a Defined Contribution saver dies before age 75 with uncrystallised funds, those funds can be, if distributed within two years, paid tax-free, or used to purchase a dependant's or nominee's annuity.

The draft legislation indicated these payments would be subject to tax post 6 April 2024. It has now been confirmed by HMRC that the former BCEs, relating to these events will remain in place. And, therefore the benefits of members, who have transferred benefits to Defined Contribution arrangements for this purpose, will continue to be excluded from any tax charges post 6 April 2024.

Relevant Benefit Crystallisation Events

Although most BCE's will disappear, Relevant Benefit Crystallisation Events (RBCEs) are to be introduced which relate to the payment of Relevant Lump Sums. (The payment of a pension commencement lump sum, an uncrystallised funds pension lump sum, a serious ill-health lump sum, or a lump sum death benefit on or after 6 April 2024).

The scheme administrator will provide individuals with a Relevant Benefit Crystallisation Event Statement advising how much of their allowances have been used up by a RBCE.



Schemes will have to report every case where a scheme pays out a lump sum or a lump sum death benefit over the Lump Sum Allowance (LSA) or Lump Sum and Death Benefit Allowance (LSDBA) and above any valid protection an individual is relying on, via Managing Pension Schemes.

A new Event (Event 24) will be introduced to advise HMRC in bulk on Managing Pension Schemes of those individuals who have exceeded their available allowance or where they have had a RBCE where it has exceeded their available allowance.

Benefits drawn before 6 April 2024 – Transitional Arrangements from the LTA Regime to the New Allowances

Benefits taken by individuals before the new allowances become effective on 6 April 2024 are to be taken into account when calculating what tax-free element (if any) an individual has left to count towards the new allowances.

If an individual had not taken benefits to the maximum amount of the LTA pre 6 April 2024, they may take additional sums tax-free up to the new allowances.

If an individual had used all their LTA pre 6 April 2024 then their new allowances (LSA/LSDBA) would be zero.

Before a RBCE occurs on or after 6 April 2024, individuals can apply for a 'transitional tax-free amount certificate'. This details the total tax-free lump sum amounts actually taken pre 6 April 2024.

Their previously crystallised benefits are then compared with their available allowances. Depending on an individual's personal circumstances, it may be to their advantage to apply for a 'transitional tax-free amount certificate'. For example, where they did not take 25% of their benefits as a tax-free lump sum.

Cartwright Comment - What are we Doing?

These are complicated matters and this document summarises only the key changes.

Cartwright is in the process of:

- Reviewing all member communications and scheme documents – we are recommending that members obtain financial advice from a FCA regulated adviser or tax expert if they have any doubt about their specific protections or whether or not to apply for a 'transitional tax-free amount certificate'.
- Reviewing calculation routines.
- Providing training and guidance to the administrators regarding these changes.
- Considering what, if any, changes will need to be made to our IT administration systems.

If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.

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