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# Abolishing the Lifetime Allowance for pensions

## Gaining a clearer understanding of how the new pension tax framework will work

The United Kingdom has made a significant policy change for the 2024/25 tax year that will profoundly impact pension savers. Following last year's Autumn Statement, the government announced its decision to abolish the Lifetime Allowance (LTA) for pensions, which took effect on 6 April 2024.

### THE POLICY CHANGE HAS BEEN DELIVERED IN TWO STAGES

The LTA is the total amount of money you can build up in your pension pot throughout your life without incurring an extra tax charge. For the 2023/24 tax year, the LTA was set at £1,073,1002. This policy change has been delivered in two stages.

The first stage involved removing the LTA tax charge, and the second stage involved completely abolishing the LTA itself. With the abolition of the LTA, new allowances have taken its place from 6 April 2024.

These are the Lump Sum Allowance (LSA) and the Lump Sum and Death Benefit Allowance (LSDBA). The LSA limits the tax-free lump sum that can be taken at retirement, while the LSDBA limits the tax-free lump sum that can be paid on death. Each allowance will apply to each person independently and not per scheme.

### DESIGNED TO CONTROL THE TAX-FREE CASH GIVEN TO AN INDIVIDUAL

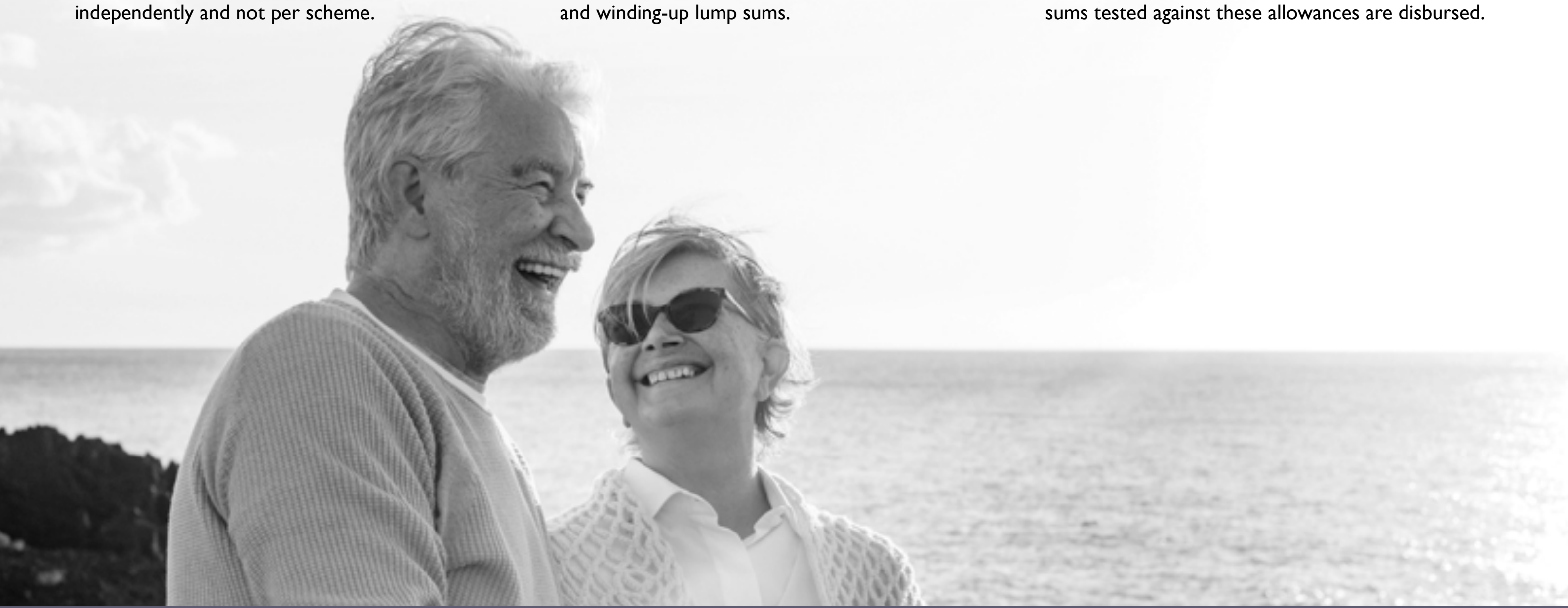
The LSA, a fixed cumulative limit of £268,275, equivalent to 25% of the previous LTA, is designed to control the tax-free cash given to an individual. This allowance applies to Pension Commencement Lump Sums (PCLS) and the tax-free portion of Uncrystallised Funds Pension Lump Sums (UFPLS). In the past, this tax-free cash was evaluated against the LTA.

An initial plan was to include tax-free segments of trivial commutation, winding-up, and small lump sums within this allowance. However, this idea has been withdrawn due to apprehensions about administrative complications. Despite this, individuals must retain some part of their lump sum allowance to facilitate the payment of trivial and winding-up lump sums.

The LSDBA is set at a fixed cumulative limit of £1,073,100, mirroring the previous LTA. This allowance applies to the tax-free elements of lump sums that can be disbursed during an individual's lifetime or upon death. The allowance encompasses PCLS, tax-free portions of UFPLS, as well as tax-free parts of serious ill-health lump sums and death benefits.

### SPECIFIC TO LUMP SUMS AND DO NOT APPLY TO PENSIONS

It's crucial to remember that these newly introduced allowances are specific to lump sums and do not apply to pensions. This marks a notable shift from the former LTA approach, where both crystallised pensions and lump sums were scrutinised. The introduction of "relevant benefit crystallisation events" signifies instances when lump sums tested against these allowances are disbursed.



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Notably, there will be no evaluations based on age.

Individuals with valid LTA protection and/or lump sum protections for both allowances will maintain their rights to the higher protected amounts. Eligible individuals will have until April 5, 2025, to apply for Fixed Protection 2016 and Individual Protection 2016.

When they are taken, the benefits are tested against the LSA and LSDBA. Any benefits exceeding these allowances will not be tax-free. Instead, they will be subject to tax at the individual's marginal Income Tax rate.

## A SIGNIFICANT SHIFT IN THE UK'S PENSION LANDSCAPE

Removing the LTA and its associated tax charge is a significant shift in the UK's pension landscape. It means that savers will not have to worry about exceeding their total pension savings limit. However, introducing the LSA and LSDBA introduces new considerations for pension savers. Benefits must be carefully managed to avoid exceeding these new allowances and incurring a tax charge.

If no benefit crystallisation events (BCEs) occurred between 6 April 2006 and 6 April 2024, the individual's LSA and LSDBA will be the standard LSA and LSDBA. The overseas transfer allowance applies to pension savers who move their pension overseas. If the allowance is exceeded, an overseas transfer charge will apply.

The abolition of the LTA represents a significant change in the UK's pension landscape. While it removes a key constraint for pension savers, introducing new allowances adds complexity. Pension savers must stay informed about these changes and consider how they might impact their retirement planning. ■

## ARE YOU SURE YOU HAVE SUFFICIENT FUNDS FOR A COMFORTABLE RETIREMENT?

Our seasoned wealth management team will explain how to structure your retirement plans optimally and devise a solution for your retirement vision. Please get in touch with us to schedule a complimentary, no-obligation consultation. We look forward to hearing from you.

THIS ARTICLE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE INFORMATION WAS CORRECT AT THE TIME OF PUBLISHING BUT MAY NOW BE OUT OF DATE.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.