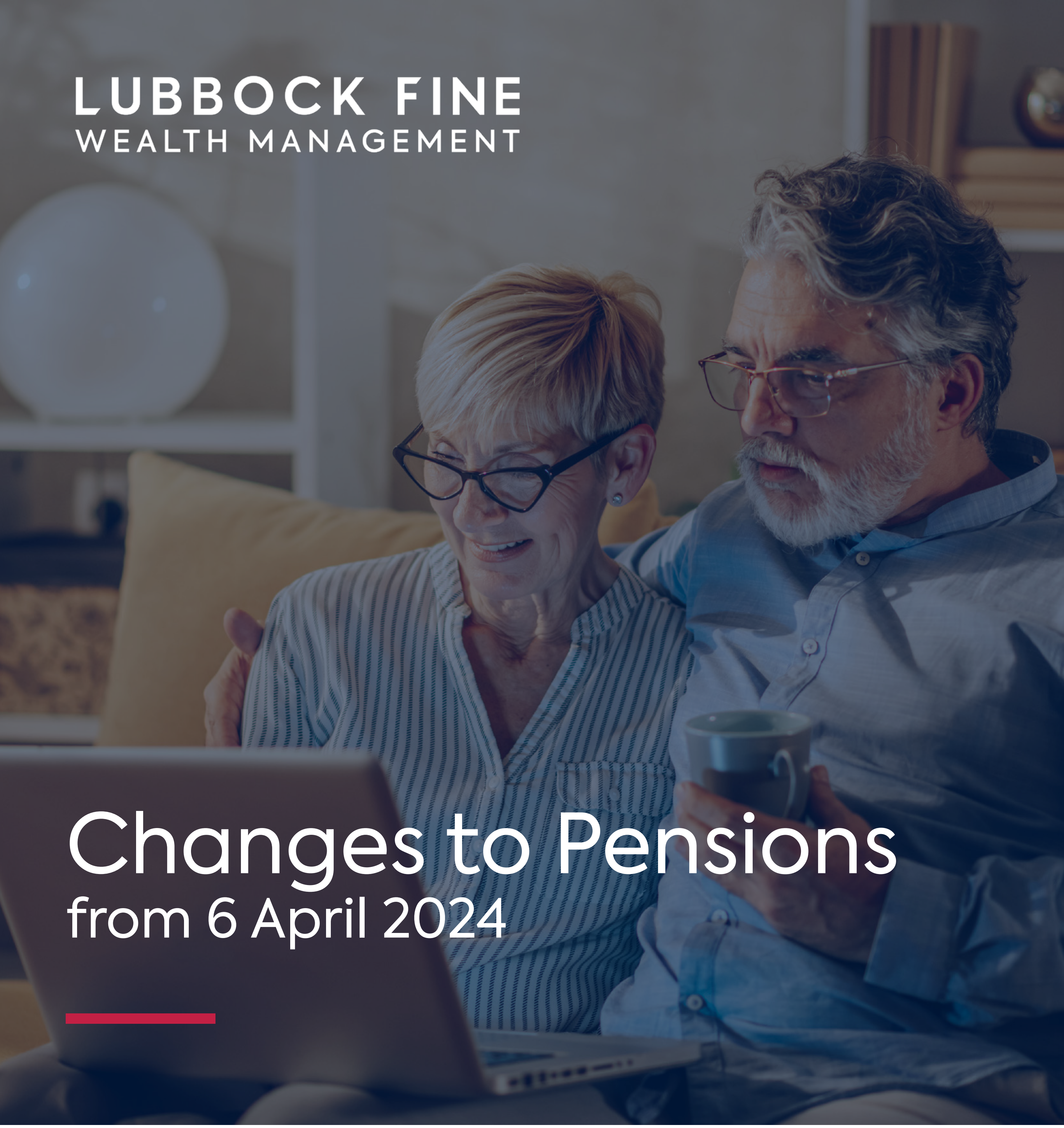
LUBBOCK FINE
WEALTH MANAGEMENT



Changes to Pensions
from 6 April 2024

In the 2023 Spring Budget, the Chancellor announced that the Lifetime Allowance (LTA) – the limit on the amount that investors can build up in their pension funds without incurring a tax charge – would be abolished from the 6 April 2024.

Since then, the government has introduced a bill proposing further changes to pensions that will take effect from the 2024/25 tax year. This primarily focuses on the treatment of lump sums taken from pensions by a member during their lifetime and by their nominated beneficiaries on death.

The standard LTA, which is currently £1,073,100, is set to be replaced by three new allowances:

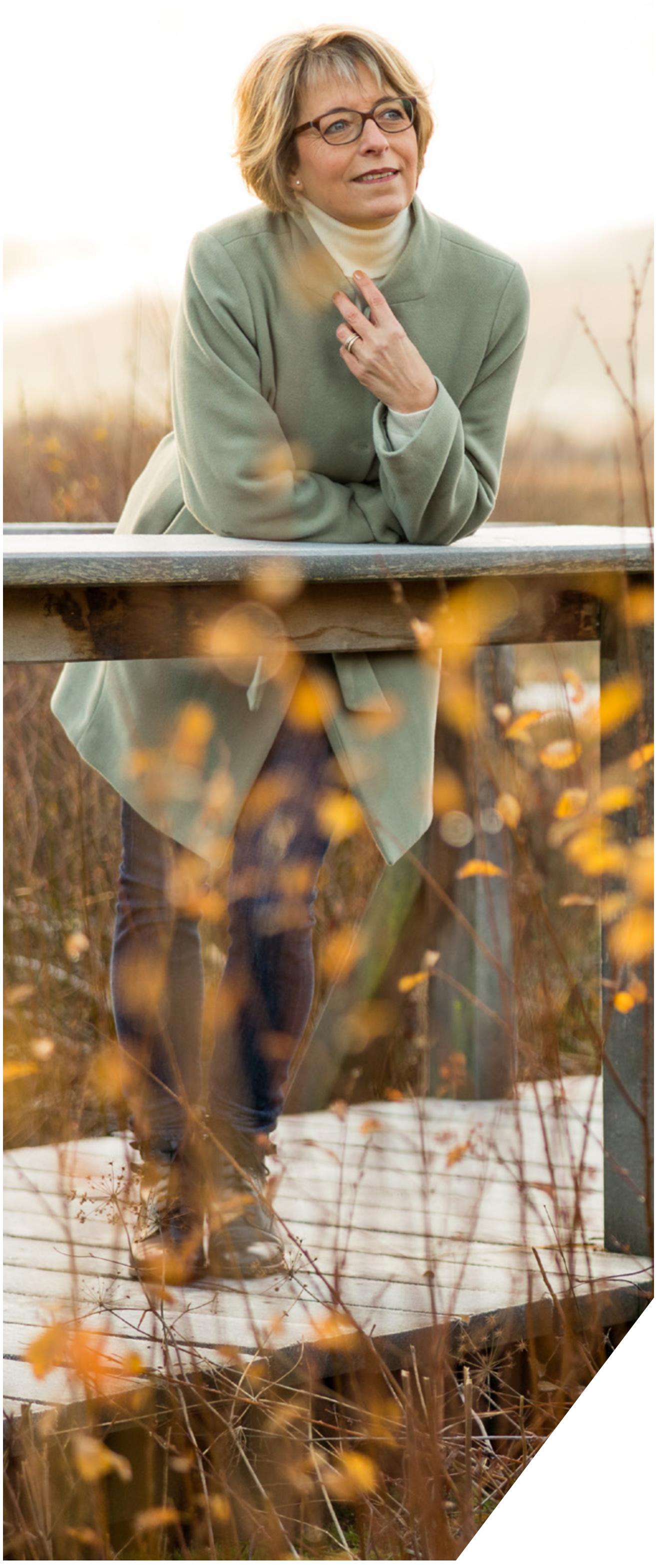
1. Lump Sum Allowance (LSA) – The LSA has been set at £268,275 and caps the amount that can be taken tax-free as a lump sum from pensions. These are limited to 25% of an individual's total pension amount subject to the overall cap imposed by the LSA.
2. Lump Sum and Death Benefit Allowance (LSDBA) – The LSDBA is set at £1,073,100 and refers to the tax-free benefits payable from an individual's total pension amount for those who die before age 75. This will be reduced by the amount of LSA taken during the member's lifetime with the remaining allowance then used up by any death benefits paid to their nominated beneficiaries as a lump sum.
3. Overseas Transfer Allowance (OTA) – This is set at the same level as the LSDBA and applies to transfers into a non-UK registered pension scheme.

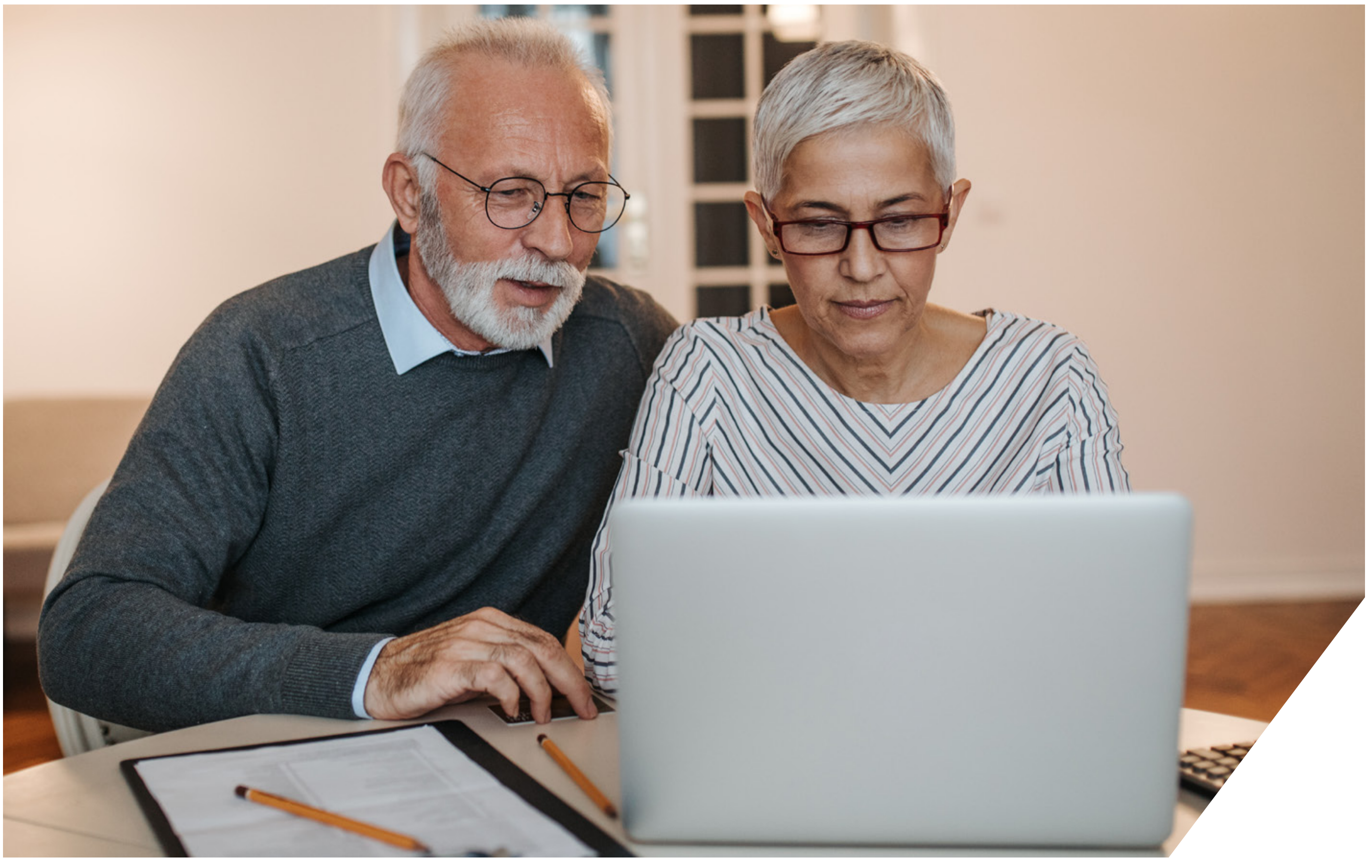
Under the LTA regime, benefits that were taken via flexi-access drawdown, by taking income from a final salary scheme or by purchasing an annuity underwent a test and, if the assessed benefits exceeded the relevant LTA, then a tax charge would be due – regardless of the way in which benefits were taken. However, in the current tax year this charge has been reduced to 0%.

At age 75, or on earlier death, a further test took place and any untouched pension rights in excess of the relevant LTA would face a tax charge. This charge has also been reduced to 0% in the current tax year.

The key difference between this and the new arrangement is that, from 6 April 2024, only lump sums will be tested against the new allowances. In the case of death benefits, this means that death benefits paid into a beneficiary's pension will not use up a member's available LSDBA.

This gives rise to a number of planning considerations both when a member decides to draw income in their lifetime and the way in which their nominated beneficiaries opt to receive any residual death benefits.





Transitional protection

Where pension benefits were taken before 6 April 2024, thereby utilising some or all of the old LTA, the member's available LSA and LSDBA will be reduced proportionately (potentially down to zero).

This may result in lower available LSA and LSDBA in instances where benefits were taken with less than the full tax-free cash entitlement.

In practice, this is most likely to apply to those who have taken less than the full available tax-free cash entitlement from a defined benefit (final salary) pension and who have a significant untouched defined contribution (money-purchase) pension amount.

To ensure that you are able to draw the correct amount of tax-free cash in instances such as the above, it is vital to apply for a transitional certificate from your pension scheme administrator.

This must be obtained before you next take benefits from any kind of pension after 5 April 2024. Otherwise, you may face a significantly higher effective tax rate when drawing pension benefits over the course of retirement.

Death benefits

As mentioned, under the new regime only lump sum death benefits will be tested against the LSDBA. Before age 75, lump sums falling within the available allowance will be received tax-free by the member's nominated beneficiaries and any excess will be subject to income tax at the beneficiary's marginal rate. After age 75, death benefits paid out will be taxable at the recipient's marginal rate.

In both instances, ensuring that your pensions are in a modern contract that provides full flexibility with respect to death benefits and a death nomination has been completed is essential to ensuring that your nominated beneficiaries can maximise the benefits available to them net of tax. Many legacy pension schemes offer death benefits via a lump sum payment only, which would be taxable before age 75 if in excess of the LSDBA, and fully taxable thereafter.

The level of tax paid on any death benefits can be managed or avoided entirely by ensuring that your pension rights are held in a modern plan and, crucially, that you have an accurate and up-to-date nomination form in place that informs the scheme trustees of whom you would like benefits to be paid to.

What if you have a form of protected allowance?

Those with Lifetime Allowance protections under the old rules will have an LSDBA based on their protected LTA. For example, a member with Fixed Protection 2014 will have an LSDBA of £1.5 million.

Those with Enhanced Protection will have an LSDBA set at the value of benefits that could have been taken on 5 April 2024.

Could you be eligible for protected allowances?

You can increase your available LSA and LSDBA by applying for Fixed or Individual Protection 2016. The deadline for applications is 6 April 2025.

- In order to be eligible for Fixed Protection 2016, you must not have contributed to any pensions since 5 April 2016.
- In order to be eligible for Individual Protection 2016, your pension rights must have been worth more than £1 million on 6 April 2016.

Holding either of these protections will give you a protected LSA and LSDBA of up to £312,500 / £1,250,000 respectively.

Death in Service schemes

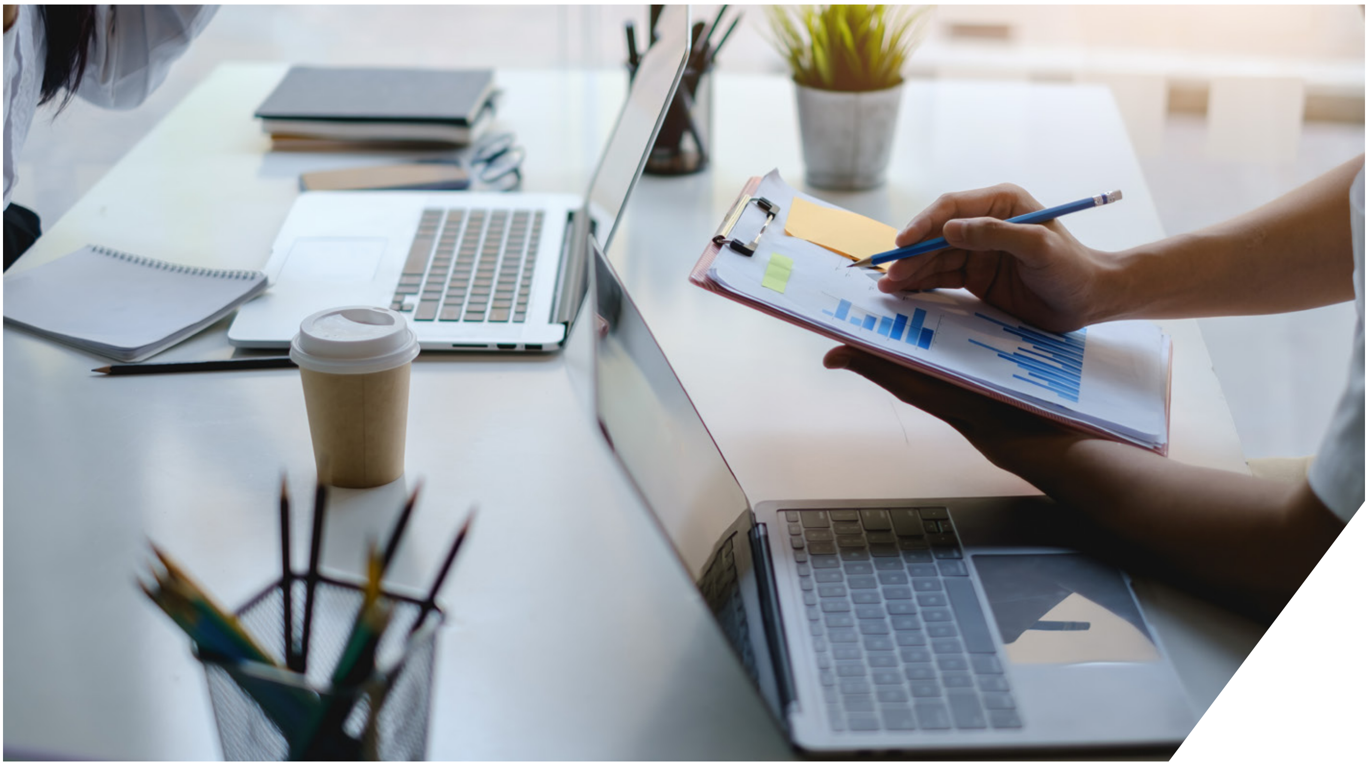
For those in employment with a Death in Service scheme, often overlooked is that benefits from the scheme typically count towards the LSDBA.

Therefore, even for those with pensions well below the £1,073,100 allowance, when factoring in a benefit of potentially four or more times salary paid on death, your total pension rights may exceed the allowance.

When to seek advice

If any of the below factors apply to you, you should speak to a financial adviser to discuss the steps you can take before and after the beginning of the 2024/25 tax year:

- You have pension policies that started before 2014
- You have taken out tax-free cash from any kind of pension in this tax year
- You are approaching age 75
- You are considering commencing a defined benefit (final salary) scheme pension



Note: The Finance Bill containing the changes detailed above is currently undergoing the usual parliamentary process and has not yet received royal assent to pass into legislation. As such, aspects of the above are subject to change and our guidance is based on our interpretation of the current wording of the Finance Bill at the time of writing.

How can we help

If you require assistance regarding any of the changes mentioned, our team is ready to provide guidance and help you make informed decisions about your financial future. To have a confidential chat, please get in touch with one of our experts.

Andrew Tricker
Director

E: andrewtricker@lfwm.co.uk
T: +44 (0)20 7490 7766

Görkem Barron
Chartered Financial Planner

E: gorkembarron@lfwm.co.uk
T: +44 (0)20 7490 7766

LFWM

Paternoster House
65 St Paul's Churchyard
London EC4M 8AB
T: +44 (0)20 7490 7766

LFWM.co.uk

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