

Paraplanners Assembly

Lifetime Allowance - where are we, where are we going and what to do?

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice.

This is just for UK advisers – it's not for use with clients



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Learning Objectives

By the end of this session, you will be able to:

Describe the pensions
Lifetime Allowance
changes arising from
Finance Bill 2023

Evaluate the impact on your
client's retirement planning
of the pensions Lifetime
Allowance changes arising
from Finance Bill 2023

Guidance

Pensions schemes newsletter 148 — March 2023

Published 16 March 2023

Contents

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2. Relief at Source
3. Accounting for Tax (AFT) Returns
4. Event Reporting

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1. Spring Budget 2023

The following is a summary of all the announcements in the Budget on 15 March 2023 in connection with tax relieved pension savings.

1.1 Lifetime allowance (LTA)

The government announced that from 6 April 2023 the lifetime allowance will be removed. The lifetime allowance will be fully abolished from the 2024 to 2025 tax year, through a future Finance Bill.

The lifetime allowance framework therefore remains in place from 6 April 2023 to 5 April 2024. Just the lifetime allowance charge that has been removed at this stage. As a pensioner, you will not be affected by this change.

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3. Taxable lump sums and PAYE for employers payroll reporting
4. Public Service Pensions Remedy (McCloud)
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Guidance

Lifetime allowance guidance newsletter — March 2023

Updated 27 March 2023

1. Overview

The government announced that it will abolish the lifetime allowance. As a result, from 6 April 2023 the lifetime allowance (LTA) charge would be removed. You can find the detailed proposed legislation for these changes in the [Finance Bill](#).

The lifetime allowance will be fully abolished from the 2024 to 2025 tax year, through a future Finance Bill.

This means that from 6 April 2023 the current lifetime allowance framework remains in place and the lifetime allowance for 2023 to 2024 remains at £1,073,100.

Pension Tax Limits

increases the adjusted income level required for the tapered AA to apply to an individual from £240,000 to £260,000.

The LTA is the maximum amount of tax relivable pension savings an individual can benefit from over the course of their lifetime. Individuals may contribute to their pension over these limits, but they will be subject to a tax charge on the excess over the allowance. The excess is taxed either at 55% if taken as pension income, or at 75% if taken as a lump sum.

savings on the expectation of a certain level of LTA. This measure ensures that nobody will face an LTA charge from April 2023. At a future fiscal event, the government will make the necessary changes to entirely remove the LTA from pensions tax legislation.

Consequently, this measure also removes the need for individuals to rely on protections from previous decreases to the LTA.

Individuals may be able to receive a tax-free lump sum when they become entitled to their pension benefits: a pension commencement lump sum (PCLS). The maximum

The background features three overlapping triangles. The central triangle is a medium purple color. It is flanked by two triangles in a light pink or peach color. The triangles overlap in the center, creating a darker purple shade in the middle. The text "Lifetime Allowance" is centered horizontally across the middle of the triangles.

Lifetime Allowance

Lifetime Allowance

2022/23

"As was"

2023/24

Excess Charges

Lump Sum
Income

~~55%~~
~~25%~~

Marginal Rate

Marginal Rate (as usual)



2024/25 on

RIP

Lifetime
Allowance

2006 - 2024

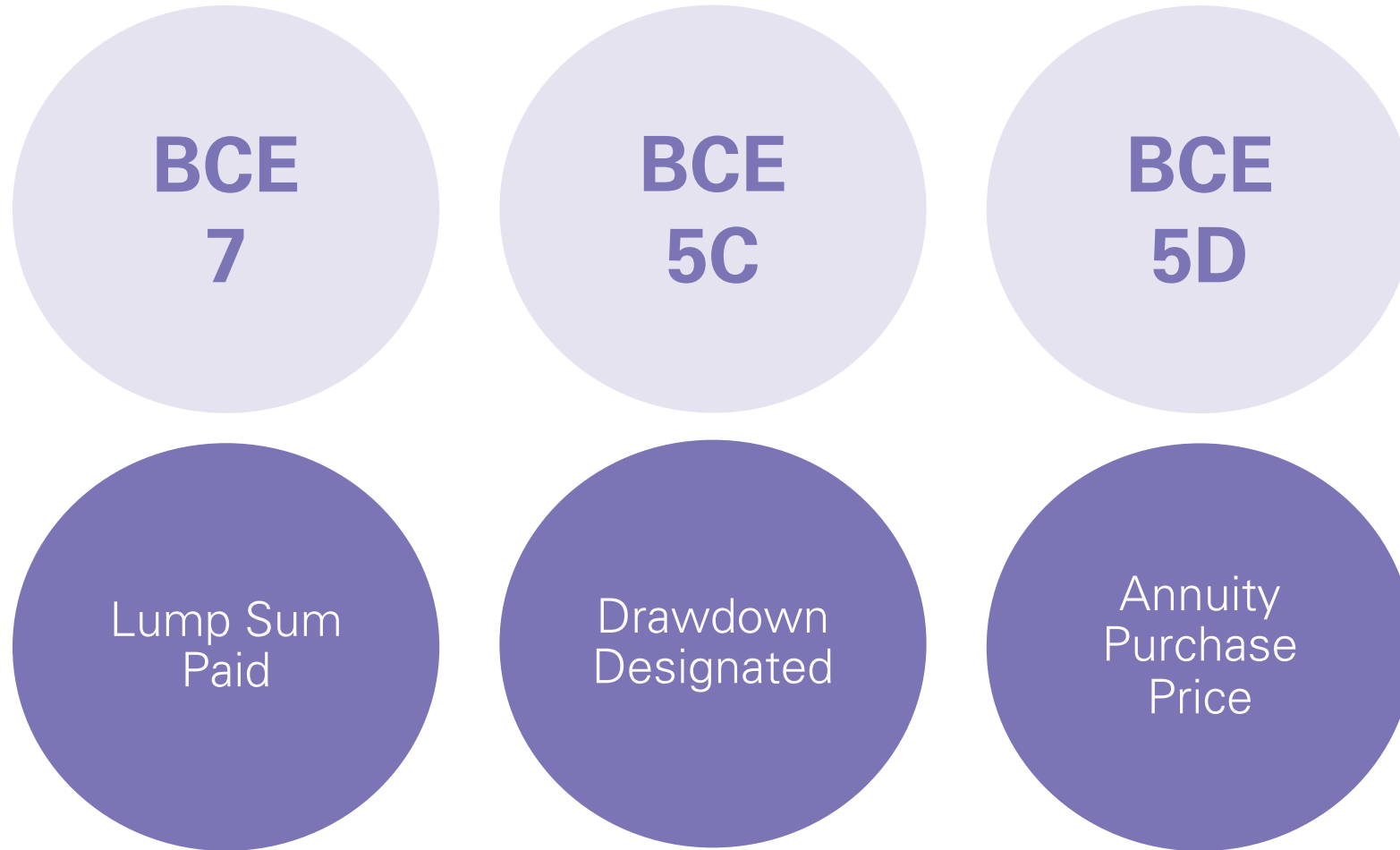


Death Benefits > LTA, <75 (incl Serious Ill Health)

	2022/23		2023/24	
	LTA charge	Income Tax	LTA charge	Income Tax
Lump Sum	55%	N/A	0%	Marginal Rate
Income*	25%	Tax Free	0% Tax Free	

*DB income benefits - remain LTA free with taxed income

LTA on Death

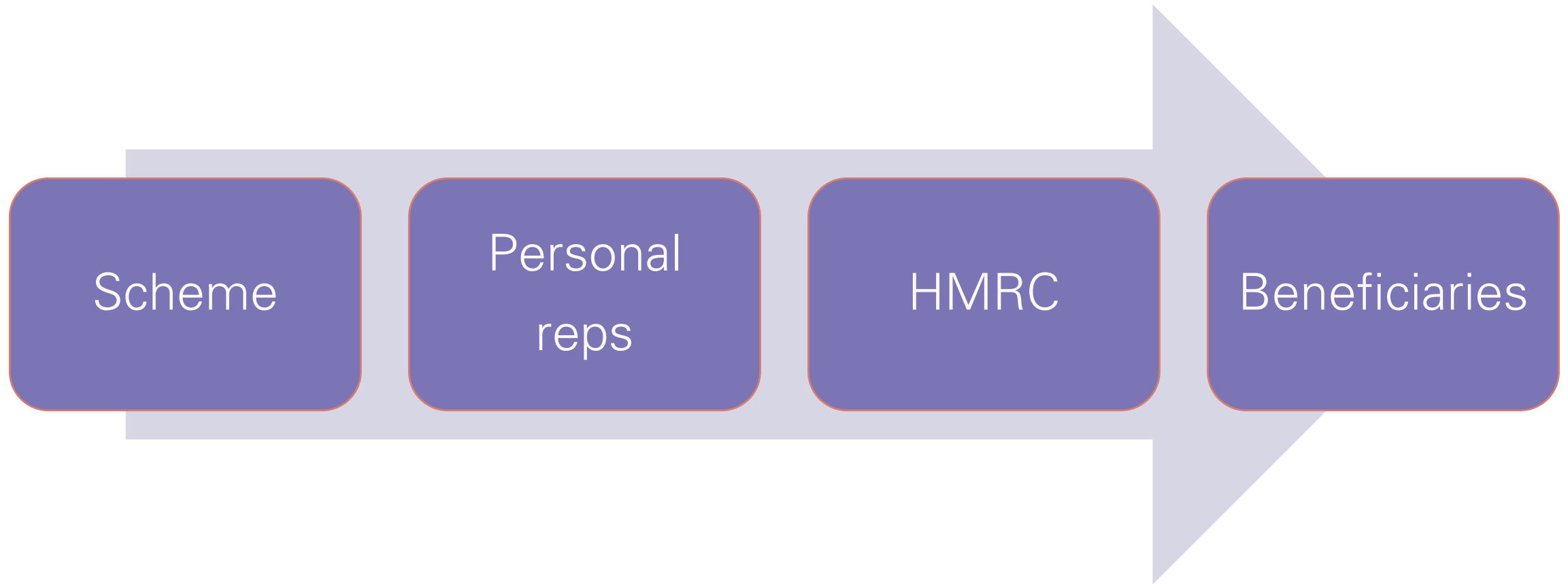


All BCEs are treated as happening simultaneously for the purposes of determining liability to LTA excess charges, which the beneficiaries pay.

“Where more than one relevant post-death BCE is paid following the death of an individual, whether from the same or different schemes, any lifetime allowance charge liability arising following the payment or designation or entitlement to any of those benefits is apportioned equitably between the (potentially) different recipients of those benefits.”

PTM088500

Death “admin”



PCLS

Lower of:

25% of your
"fund value"

Applicable Amount

25% of your
remaining
LTA

Available Portion

PCLS example

Gill has no protection and has used of £573,100 of her LTA taking benefits from a DB scheme with no TFC.

She's got £600,000 of benefits to take i.e. she has £100,000 over the LTA.

Her Pension Commencement Lump Sum is the lower of:

$$25\% \times £600,000 = £150,000,$$

or

$$25\% \times (£1,073,100 - £573,100) £500,000 = £125,000$$

Gill has had no TFC to date and her maximum will be £125,000.

PCLS Limits

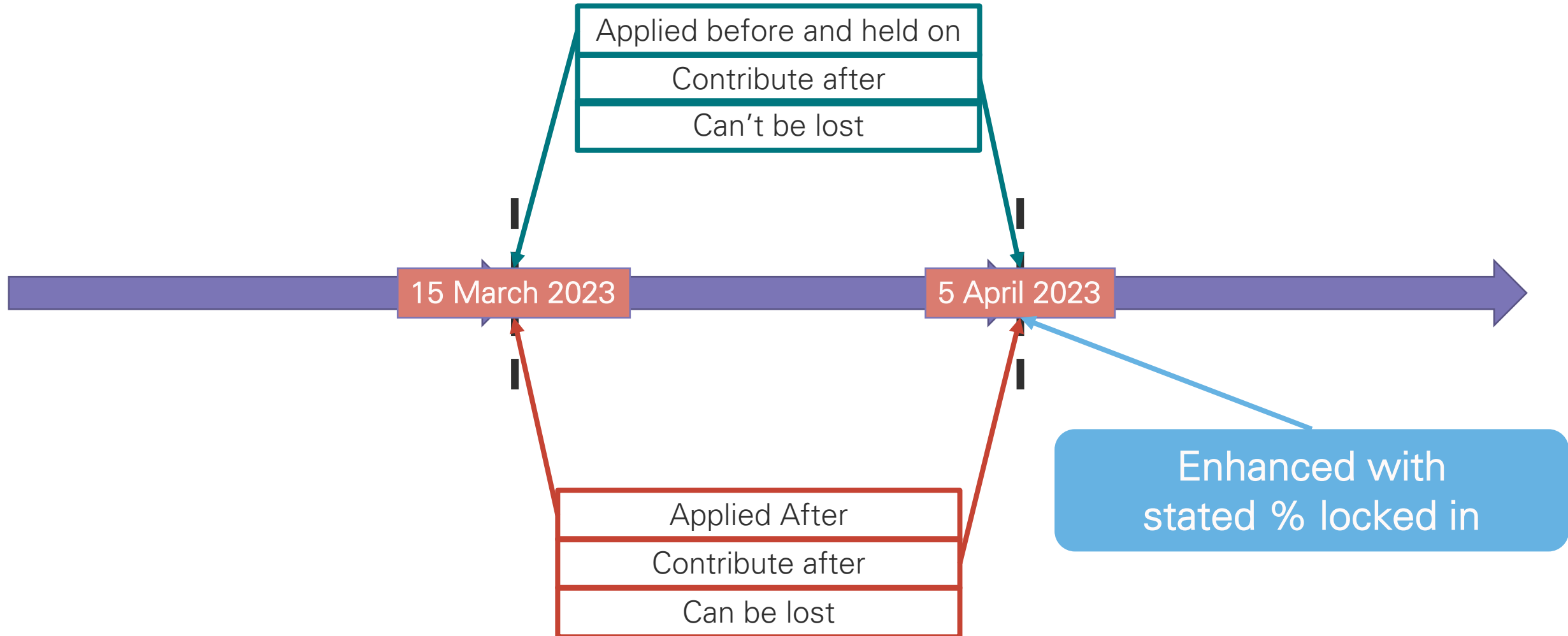
Protection	Maximum Amount
No protection	25% x £1,073,100
Fixed Protection 12	25% x £1,800,000
Fixed Protection 14	25% x £1,500,000
Individual Protection 14 &16	25% x Protected amount
Fixed Protection 16	25% x £1,250,000
Primary and Enhanced Protection with no TFC protection	25% x £1,500,000
Primary Protection with TFC protection	Amount on certificate revalued by changes in LTA
Enhanced With TFC protection	Stated % x fund value on 5 April 2023
Standalone Lump Sum (subject to technical issues being sorted)	100% x fund value on 5 April 2023

Scheme Specific

Bob has an old occupational money purchase plan.
The current value is £573,100 with TFC of £300,000.

He can receive this £300,000 and with £500,000 of LTA available (£1,073,100 – £573,100) can also receive up to a further £125,000 from any other scheme he has.

Enhanced/Fixed Protections



Primary and Individual

Primary Protection

Divorce:

- Debits reduce relevant amount

Individual

Divorce:

- Debits reduce relevant amount
- 5% offset

Higher PCLS can be lost/reduced

Is PCLS that big a deal?

Under "LTA"

	Cost after Tax Relief	Net Benefit (after PCLS)
Basic Rate	£80	£85
Higher Rate	£60	£70
Additional Rate	£55	£66.25

Over "LTA"

	Cost after Tax Relief	Net Benefit (no PCLS)
Basic Rate	£80	£80
Higher Rate	£60	£60
Additional Rate	£55	£55



Intergenerational Planning

Don't ignore the pension because the "LTA" is gone!

Brian, a higher rate taxpayer has used up his LTA and has £20,000 per annum disposable income.

This is exacerbating his IHT issue and he has made a chargeable lifetime transfer that used up his nil rate band.

Assume when he dies his beneficiaries are (BRT) and are offered beneficiaries DD

The outcomes – dying before 75

Leaving in Estate

- £20,000 less IHT at 40% = £12,000

Net Benefit

£12,000

Paying £20k to pension

- £5,000 (from tax return) less IHT at 40% = £3,000
- £25,000 from pension less **LTA excess at 0%** = £25,000 (income tax free)

Net Benefit

£28,000

The outcomes – dying AFTER 75

Leaving in Estate

- £20,000 less IHT at 40% = £12,000

Net Benefit

£12,000

Paying £20k to pension

- £5,000 (from tax return) less IHT at 40% = £3,000
- £25,000 from pension less 20% tax = £20,000

Net Benefit

£23,000

Or contribute to someone else's pension

Brian's daughter Briana is currently a basic rate taxpayer.

If Brian paid into her pension what would the outcome be if she gets or doesn't get PCLS?

And just to make it more interesting, she wins the lottery between now and taking benefits and is an additional rate taxpayer in retirement.

Briana's benefit...

With PCLS

- PCLS of £6,250
- £18,750 taxed at 45%

Without PCLS

- £25,000 taxed at 45%

Left in estate £12,000

Net Benefit

£16,563

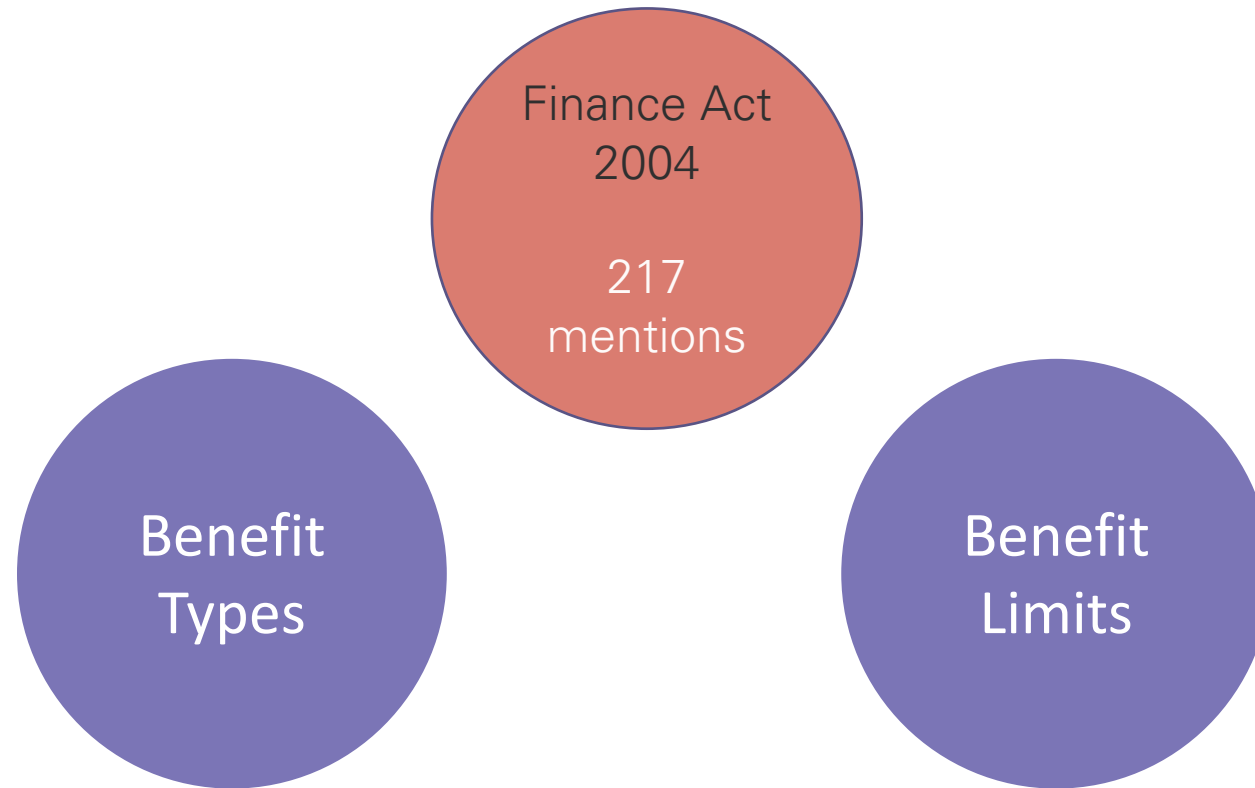
Net Benefit

£13,750

The background features three overlapping triangles. The central triangle is a medium purple color. It is flanked by two larger triangles in a light pink or peach color, which overlap the central one. The text 'Abolishing the LTA' is centered horizontally across the middle of these triangles.

Abolishing the LTA

Lifetime Allowance





Political Risk?

Lifetime LTA
charges to 0%
(marginal rate tax)

PCLS
capped &
protected

Pre budget
Fixed & Enhanced
Protection can't
be lost

Death LTA pre 75

Lump sums
Marginal rate
Drawdown
Tax Free

"Reversal"

Reinstate LTA charges?

LTA reinstated at £1,073,100?

NHS specific LTA "solution"

Reinstate at another level?

Something else?

Actions

Pay a contribution
where you have
protection

Deliberately fund
beyond LTA

Take excess as
lump sum at
marginal rate

Designate excess
to drawdown
whilst LTA tax is
0%

Retrospective loss of
protection?

Reintroduce protection
loss and retain protected
LTA?

Net benefit expected
potentially reduced.

New protection
preserving benefit?

Leave as is?

Retrospectively assess at
55%?

Leave as is, testing at
next BCE/Age 75?

Retrospectively assess at
25%?

Accessing Excess

Bob has an unvested fund of £1,273,100.

He wants to trigger his LTA excess while the LTA charge is 0%

He takes his PCLS of £268,275.

The balance of £1,004,825 is designated to drawdown tax free

IHT on PCLS? (£107,310)

Is LTA tax and beneficiary tax on excess worse?

Loss of PCLS if LTA reintroduced at higher amount?

Factors

FUNDING

LIFETIME
ALLOWANCE

CURRENT
POSITION

Learning Objectives - Recap

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QUESTION TIME



Support



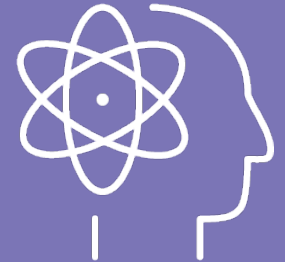
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