Pension Changes from April 2024

In the November Autumn Statement, the Chancellor confirmed that the **removal of the Lifetime Allowance rules from 6 April 2024 would go ahead**. Subsequently, the Finance Bill 23/24 has shown how the new pensions landscape might look. With such a short period for the industry to digest and implement the new legislation, we do not know yet exactly how the administration may work, but we do know enough to be able to start planning with the new world in mind.

So, **no more Lifetime Allowance tests** to worry about, fantastic news. Of course, pension rules are never so simple, and instead we will have two new allowances to contend with – the main two are the **Lump Sum Allowance (LSA)** and the **Lump Sum and Death Benefits Allowance (LSDBA)**. These aim to **limit the tax-free lump sum amounts** which can be withdrawn from pensions both in your lifetime and as a death benefit. We pick out the main points to be aware of below.

The caveats. Please note that the Finance Bill may be subject to amendment before it passes into legislation. The new legislation runs to 98 pages, so this is a broad guide only and there will inevitably be quirks yet to be drawn out (not least as we are also awaiting the release of HMRC guidance). We don't cover the implications for defined benefit (final salary) schemes or overseas transfers (a new Overseas Transfer Allowance applies here, which may allow a second use of the main allowances). In all cases we recommend discussing with your adviser before taking any action.

The future. Of course, the cost of pension tax relief to the government continues to be significant, and politicians do seem to enjoy tinkering with the pension rules. You should be aware that the Labour party have suggested they would reintroduce the LTA, should they form the next government. Whether this comes to pass, in what shape and form the legislation may take, and what transitional protections may apply, all remain very much unknown. As ever, you can only make the best plans possible based upon current legislation, and guard against inaction caused by perennial future uncertainty.

PENSION CHANGES FROM APRIL 2024

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PENSION CHANGES FROM APRIL 2024

THE NEW RULES FROM 6.4.24 - SUMMARY TABLES

New Allowances	£
Lump Sum Allowance (LSA)[1]	£268,275
Lump Sum and Death Benefits Allowance (LSDBA)[1]	£1,073,100

1. Those with existing LTA protections will have their own protected amounts, see section below

Tax on Withdrawals	Pension Lump Sum	Pension Income
In lifetime	Tax-free within available[1] LSA (or available LSDBA if lower) Income tax on the excess	Income tax
On death before age 75	Tax-free within available[1] LSDBA Income tax on the excess	Tax free[2]
On death after age 75	Income tax	Income tax

1. See below for amounts which reduce your available allowance
2. Assuming settled within 2 years of notification of death

Allowance Reducers	LSA	LSDBA
Post 5.4.24 RBCE[1]		
PCLS (tax-free cash): standard	£ amount taken	£ amount taken
PCLS: where scheme-specific tax-free cash protection applies	25% of crystallised fund	100% of crystallised fund
PCLS: stand-alone lump sums	25% of lump sum paid (100% if you have Enhanced or Primary protection)	100% of lump sum paid
UFPLS	£ amount of tax-free component	£ amount of tax-free component
Serious ill-health lump sums	-	£ amount paid
Authorised death benefit lump sums	-	£ amount paid
Pre 5.4.24 BCEs (transitional rules)		
Standard Calculation	25% of previous LTA usage	25% of previous LTA usage
Alternative Method	£ tax-free lump sum paid	£ tax-free lump sum paid

1. RBCE = Relevant Benefit Crystallisation Event, the new term for a Benefit Crystallisation Event (BCE). Usually the point at which you decide to take a pension withdrawal.

PENSION CHANGES FROM APRIL 2024

PAYING INTO PENSIONS

Unchanged: Pension Contribution Rules

The basic rules on contributing to pensions remain unchanged, and are covered more fully in our Planning Note on this area.

The maximum tax-relieved amount that you, as an individual, can contribute each year remains limited by the higher of your earned income and the Annual Allowance (£60,000 for 2023/24, plus any available carry forward from the previous three years).

Higher earners (broadly, those earning over £260k) should be aware that their annual allowance can be tapered down to as little as £10k. Those who have taken any flexible pension income (such as drawdown income or an UFPLS) should also be careful, as they may have a reduced Money Purchase Annual Allowance of £10,000 (with no carry forward allowed) applying to them.

New: pension contributions now possible with Enhanced and Fixed Protection

➔ Previously, those holding **Enhanced or Fixed Protection** could not make **new** pension contributions without losing their valuable protection. This is no longer true, **provided the protection election was made before 16 March 2023**. New pension contributions made in 2023/24 onwards **will not** now lead to loss of protection for these individuals. These protections will remain important in the new regime to give potentially higher personal Lump Sum Allowances or Lump Sum and Death Benefit Allowances.

PENSION CHANGES FROM APRIL 2024

WITHDRAWALS FROM PENSIONS (LIFETIME)

Tax on Withdrawals	Pension Lump Sum	Pension Income
In lifetime	Tax-free within available[1] LSA (or available LSDBA if lower) Income tax on the excess	Income tax

1. See below for amounts which reduce your available allowance

Your choices on how to take a withdrawal from a (defined contribution) pension **remain the same** as under the previous LTA regime. **However, the tax rules have changed**. **In practice, most will be able to (at least initially) take the same levels of tax-free lump sum (PCLS or tax-free cash), but inevitably there are quirks to be aware of.**

The types (structure) of income you can choose between are covered in our Planning Note on Pension Income Options .You also continue to be able to take up to 25% of your fund as a Pension Commencement Lump Sum (PCLS, also known as tax-free cash), within the allowed limit.

Tax on Pension Income (Lifetime)

Unchanged: Income Tax on pension income

Very simply, income tax is applied to **all** pension income withdrawals during your lifetime. This is regardless of the mechanism you use to take the withdrawal – i.e. annuity, drawdown, or one off Uncrystallised Pension Fund Lump Sum.

New: no more Lifetime Allowance test or charge

There is no longer a Lifetime Allowance test or Lifetime Allowance charge when taking any pension income. The only restriction in future will be on the level of lump sum withdrawal permitted to be taken tax-free.

Tax on Pension Lump Sums (Lifetime)

Unchanged: Tax-free lump sum facility

The choice to take a tax-free **Pension Commencement Lump Sum (PCLS)** (often called your **tax-free cash**) of, usually, **up to 25% of your fund** has not changed. This is available at the point of **crystallisation** (when you make your decision to take a pension income by way of drawdown, annuity, or Uncrystallised Fund Pension Lump Sum (UFPLS)). Note the taxation and levels of PCLS available from defined benefit schemes may be different.

PENSION CHANGES FROM APRIL 2024

WITHDRAWALS FROM PENSIONS (LIFETIME)

New: Pension commencement excess lump sum (PCELS)

The PCELS provides for members who are permitted, by scheme rules, to take a lump sum in excess of their lump sum allowance on commencement of their pension. The PCELS is entirely liable to income tax, charged at the member's marginal rate.

The PCELS is only payable where the member has used up all of their lump sum allowance, and the total of the lump sum for payment on commencement of the member's pension exceeds the members available lump sum death benefit allowance.

New: Lump Sum Allowance (LSA)

The maximum overall PCLS available was previously limited by the Lifetime Allowance. The **maximum PCLS** you can take from 6 April 2024 will now be the **lower of the three amounts below**. In practice, the maximum remains the same for most individuals.

PCLS limited by the lower of:	
Applicable amount	25% of the pension fund being crystallised[1]
Available Lump Sum Allowance (LSA)	LSA less any 'relevant BCEs' (amounts already taken as tax-free lump sums)
Available Lump Sum and Death Benefit Allowance (LSDBA)	LSDBA less any 'relevant BCEs'. See death benefit section below[2]

1. If you have enhanced protection <u>with</u> protected tax-free cash, the applicable amount is the percentage on your certificate multiplied by the crystallisation amount
2. In practice this may only reduce the PCLS available within the LSA limit, if a serious ill-health lump sum, stand-alone lump sum, or benefits from scheme specific PCLS protection, has already been taken.

Exceptions:
A single calculation (see pension protection section below) to determine the PCLS available applies for those with:

- primary protection <u>with</u> protected tax-free cash
- scheme specific tax-free cash protection
- stand-alone lump sums

PENSION CHANGES FROM APRIL 2024

WITHDRAWALS FROM PENSIONS (LIFETIME)

LSA Key Points:

- The standard LSA is **£268,275** unless you have existing LTA protection (see below).
- The LSA is a **cumulative limit**, and once exceeded, withdrawals are subject to income tax.
- Your **available LSA is reduced by relevant BCEs** (broadly speaking, the amount of previous tax-free lump sums taken):
  - PCLS (tax-free cash). The amount paid tax-free is deducted from the LSA in £ terms.
    - If **scheme specific protection** applies, then it is 25% of the crystallised fund which is deducted from the LSA, but 100% for the LSDBA.
    - If a **stand-alone lump sum** is paid, then the value deducted for the LSA is 100% of this amount for those with Enhanced or Primary protection, but 25% otherwise. The amount is 100% for LSDBA regardless of protection status.
  - UFPLS. The tax-free element of an uncrystallised funds pension lump is deducted in £ terms. This tax-free amount is usually 25% of the fund being crystallised, but may be less if limited by the available LSA and LSDBA.
  - Pre-April 2024 benefits already paid (see transitional arrangements below).
- Your **available LSA is not reduced by** the tax-free elements of trivial commutation lump sums, winding up lump sums, and small pots payments (although you need some allowance available in order to take these).

➔ The LSA is measured as a pound amount which is vulnerable to **fiscal drag** in future years. Many will take their PCLS as required for expenditure, and/or will not be restricted by the LSA. However, for many clients, the decision around when to take the PCLS may now be driven by the **potential future reduction of the LSA in real terms**, versus the potential tax impacts of withdrawing the funds from the pension tax wrapper (moving it into a taxable growth environment and potentially falling within your taxable estate for IHT).

➔ Only lump sums are now tested, and not income. Where there is a preference over which plan provides PCLS (e.g. where you have a mixture of DB and DC schemes), you now have **more flexibility in terms of order of taking benefits**. For example, even if you don't wish to take PCLS from your DB scheme, you can take this first and still leave the full LSA available for the DC scheme.

PENSION CHANGES FROM APRIL 2024

PENSION DEATH BENEFITS

Tax on Withdrawals	Pension Lump Sum	Pension Income
On death before age 75	Tax-free within available[1] LSDBA Income tax on the excess	Tax free[2]
On death after age 75	Income tax	Income tax

1. See above for amounts which reduce your available allowance
2. Assuming settled within 2 years of notification of death

Unchanged: death benefit choices

Death benefit choices are unchanged: income by way of beneficiaries' drawdown or annuity, or a lump sum payment. Be aware that scheme rules may limit these options. Current options and rules are covered in our Planning Note on Money Purchase Death Benefits

➔ It remains vital that you check your pension scheme offers the **full range of flexible death benefits** and consider whether a move to an alternative scheme may be beneficial if not.

➔ It also remains vital that your **nomination of beneficiaries** (also called **expression of wishes**) for each of your pensions is made and is **kept up to date**. If there are surviving dependants (e.g. a surviving spouse), then non-dependant beneficiaries (such as adult children) who are not named, will only be able to receive potentially taxable lump sum death benefits, rather than tax free income death benefits.

Tax on Pension Death Benefits

Unchanged: the age 75 division

The distinction in tax treatment, depending on whether you **die before or after age 75 also remains**. However, the tax rules and allowances have now changed.

It remains the case that **all death benefits paid after age 75 are subject to income tax**, whether they are paid as income or lump sum.

PENSION CHANGES FROM APRIL 2024

PENSION DEATH BENEFITS

The potential tax-efficiency of pensions on death prior to age 75 looked like it may be under threat. However, the Finance Bill confirms that **income death benefits will continue to be paid tax-free, for death before age 75** - regardless of whether the pension was crystallised or uncrystallised at death. This means that the funds can be paid into beneficiaries' drawdown (assuming suitable nominations have been made as above), they can remain invested in the tax-free growth environment of a pension, and then can be withdrawn by the beneficiaries tax-free as and when required.

New: Lump Sum and Death Benefits Allowance (LSDBA)

As pensions are no longer tested against the LTA, there is a new limit on the **total tax-free lump sum** which can be paid from your pensions, both during your lifetime and on your death. This is the new LSDBA, equal to the current standard LTA of £1,073,100 (or personal LSDBA if you have pensions protection as below). It only applies to death benefits if you were to **die before age 75**. It is not available after age 75.

LSDBA key points:

- The standard LSDBA is **£1,073,100** unless you have existing LTA protection (see below).
- The LSDBA is a **cumulative limit**, and once exceeded, withdrawals are taxed to income tax.
- Your **available LSDBA is reduced by relevant BCEs:**
  - LSA amounts paid as above.
  - Serious ill-health lump sums.
  - Authorised lump sum death benefits.
  - Pre-April 2024 benefits already paid (see transitional arrangements below).
- Your **available LSDBA is not reduced** by charity and trivial commutation lump sum death benefits.
- It is also **not reduced by death benefits from crystallised rights already tested under the LTA** (e.g. death benefits from drawdown funds crystallised prior to 6.4.24).

PENSION CHANGES FROM APRIL 2024

PENSION DEATH BENEFITS

- If **enhancing your LSDBA on potential death prior to age 75** is important to you (for example, you plan to leave your pension funds to a trust, or they are in a scheme which only pays lump sum death benefits and cannot be moved), then you may wish to explore whether crystallising any pension funds prior to 6.4.24 could be beneficial for you.

- **Who pays the tax?** The order in which death benefits are paid will become relevant from April 2024. The personal representatives will be able to decide in what order the beneficiaries can 'use' the LSDBA, and hence which beneficiaries may or may not suffer income tax on their inheritance. For those where the lump sum received is not covered by the LSDBA, the deemed date of payment for income tax purposes will be the date of death of the member.

PENSION CHANGES FROM APRIL 2024

LIFETIME ALLOWANCE PROTECTION

For those with existing LTA pension protection, a **higher LSA and LSDBA allowance** may be available, as summarized in the table below. It is also still possible to apply for 2016 protection until 5.4.25, subject to meeting the criteria as below.

LTA Protection	LSA	LSDBA
Standard	**£268,275**	**£1,073,100**
Enhanced Protection	Amount of PCLS entitlement on 5.4.23 (if no protected PCLS this will be maximum £375,000)	Amount of uncrystallised funds on 5.4.24
Primary Protection (without protected PCLS)	£375,000	£1,800,000 x primary protection factor
Fixed Protection 2012	£450,000	£1,800,000
Fixed Protection 2014	£375,000	£1,500,000
Fixed Protection 2016	£312,500	£1,250,000
Individual Protection 2014[1]	25% of fund value at 5.4.14 (maximum £375,000)	Fund value at 5.4.14 (maximum £1.5m)
Individual Protection 2016[1]	25% of fund value at 5.4.16 (maximum £312,500)	Fund value at 5.4.16 (maximum £1.25m)

1. Deadline for application for FP16 and IP16 is 5.4.25. IP16 requires minimum pension value at 5.4.16 of £1m. FP16 requires that no pension contributions have been made since 5.4.16. In addition, for FP16 applications made after 15.3.23, any contributions made after 5.4.23 will invalidate protection.

➔ Those with **Enhanced Protection may be able to increase their LSDBA by making pension contributions before 5.4.24**. This may not be of benefit if all pension death benefits are anticipated to be taken as income. Please discuss with your adviser if you are affected.

PENSION CHANGES FROM APRIL 2024

LIFETIME ALLOWANCE PROTECTION

Single Calculation Exceptions to the Rule

Here the maximum tax-free lump sum is based on a single rule (as below), rather than the lower of the applicable sum, available LSA and available LSDBA.

	Maximum tax-free lump sum
Primary plus protected TFC	Tax-free lump sum on certificate x 1.2 LESS (for BCE before 6.4.12) the PCLS paid x 1.8/standard LTA when paid LESS (for BCE after 5.4.12) the amount of PCLS paid
Scheme specific protection[1]	Cash entitlement at 5.4.06 x 1.2 PLUS [current fund – (A-Day fund x 0.7154)/4]
Stand-alone lump sums	Amount that could have been paid tax-free on 5.4.23[2]

1. Subject to clarification of the calculation as currently defined in legislation
2. For those with primary or no protection, limited to available LSDBA

➔ The **order of taking benefits** where these **single calculation policies** exist should be carefully considered, as prior LSA usage won't reduce the level of potential PCLS available from these types of scheme.

➔ The calculation for **scheme specific tax-free cash protection** has changed. It is now the same for all, regardless of pension protection elections. This means that those with **fixed and individual protection should see a higher tax-free cash entitlement under the new rules**. Those who are planning on taking benefits this tax year may wish to discuss with their adviser whether there is any benefit to deferring the decision until next tax year.

PENSION CHANGES FROM APRIL 2024

TRANSITIONAL ARRANGEMENTS: benefits taken before April 2024

For those who have started to take pension benefits already, transitional rules will apply to determine their starting point for the new rules as at 6 April 2024. These will effectively deduct tax free lump sums already taken, but of course, with some quirks.

<u>Already used 100% of your LTA?</u>
If you have already used 100% of your LTA, then generally this is simple - you will have no LSA or LSDBA left.

However, if you have **ever taken less than 25% PCLS** (tax-free cash), **or PCLS when the standard LTA was lower than currently** (i.e. when it was £1m in 2016/17 and 17/18), then you may be able to use the **alternative method** below to give you some available LSA. This method may also be used to enable you to reclaim some LSDBA, if this is relevant to your planning.

<u>Only partially used your LTA?</u>
There will be two methods of calculating the reduction in your available LSA and LSDBA:

1. For most, the **standard calculation** will reduce the available LSA and LSDBA by 25% of the LTA used already. In addition, serious ill health and death lump sums will reduce the LSDBA by 100% of the LTA used.

   For example: if an individual without pension protection has used 80% of their LTA by 6.4.24, their LSA and LSDBA will be reduced by £214,620 (80% x 25% x £1,073,100)

2. An **alternative method** can be used which reduces the available allowance by the actual £ amount taken as a tax-free lump sum.

   This could be attractive, for example, where you decided not to take the full PCLS available (perhaps when taking a final salary pension or one with a high guaranteed annuity rate), or if you took PCLS when the LTA was lower than currently (i.e. in any of the four years from 2016/17 to 2019/20).

To use the alternative method, you must provide a **transitional tax-free amount certificate** stating the correct £ deduction. Scheme administrators will need to provide these within three months of a request.

PENSION CHANGES FROM APRIL 2024

TRANSITIONAL ARRANGEMENTS: benefits taken before April 2024

The calculation will be made at the **first relevant benefit crystallisation event after 5 April 2024** (e.g. moving a pension into drawdown, taking an UFPLS or buying an annuity), and so **you will need to have obtained the certificate before this**.

For example: if you had previously taken a DB pension using 80% of your (standard) LTA but took no tax free cash, the standard calculation would give you only £53,655 available LSA (20% x 25% x £1,073,100). The alternative calculation would give the full £268,275. Assuming you also have a large enough uncrystallised pension fund of £1,073,100 or more (or can make sufficient additional pension contributions to bring the fund to this level), this could potentially give you an additional £214,620 tax-free cash. This would otherwise be subject to income tax at your highest marginal rate. Assuming this is 45%, the alternative calculation could save you a huge £96,579.

➔ If you might benefit from a higher level of potential LSA or LSDBA under the alternative calculation, you need to **apply for certification in plenty of time** before your first crystallisation event after 5.4.24.

Pre A-Day Benefits

Pre-commencement pensions (pensions which were already in payment at 5.4.06) had their LTA usage calculated based upon 25 x the pension in payment at the time of the first crystallisation event after 5.4.06. Where these have already been tested, the LSA and LSDBA will be reduced based on the standard calculation above. However, you will also be able to use the alternative method to show that no PCLS was taken, and hence not reduce your available LSA and LSDBA.

It is less clear how pre-commencement pensions where there haven't been any such crystallisation events by 5.4.24, will be tested. It is possible that the LSA and LSDBA will be reduced by reference to 25 x the pension payment at the time of the first crystallisation post 5.4.24, with no alternative calculation available.

➔ If you believe you may fall into this second category, please contact your adviser who will be able to help guide you to the best course of action (potentially triggering a crystallisation event prior to 6.4.24).

FOR MORE ADVICE OR INFORMATION

If you would like to discuss any of the information contained within this bulletin, please contact your usual clarity adviser or get in touch using the details below.

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