HARGREAVES LANSDOWN

NEW LUMP SUM ALLOWANCE

Discover three new allowances that have replaced the lifetime allowance rules

3 NEW ALLOWANCES

There used to be a limit to the total value of pension benefits you could build up throughout your lifetime and generally receive up to 25% tax free. This limit was known as the lifetime allowance (LTA) and was set at £1,073,100 for most people.

Normally, if the value of your pension benefits grew beyond the lifetime allowance, any excess would be subject to a tax charge.

However, from 6 April 2024 the LTA rules have been abolished and replaced by three new allowances. The lump sum allowance, the lump sum and death benefit allowance, and the overseas transfer allowance.

In this guide you'll discover;

- How the new allowances could impact you.
- The value of the new allowances and what type of pension withdrawals will use them up.
- What happens if your pension has already been measured against the LTA.
- How your beneficiaries could be impacted by the new allowances.

IMPORTANT INFORMATION
Money in a pension is usually accessible from age 55 (rising to 57 in 2028). Pension and tax rules can change, and benefits depend on your circumstances. The information in this guide is based on our understanding of the legislation and other related HMRC announcements as of 16 April 2024 and is subject to change. This isn't personal advice. If you're not sure what's right for you, please ask for advice.

01
NEW LUMP SUM ALLOWANCE

£268,275

THE NEW LUMP SUM ALLOWANCE FOR MOST PEOPLE

The lump sum allowance applies to the tax-free element of certain lump sums that you take from your pension. For most people, the lump sum allowance will be £268,275.

If you have lifetime allowance protection, your lump sum allowance may be different.

Any lump sums that exceed your available allowance will be taxed at your marginal rate of income tax.

WHAT USES UP THE LUMP SUM ALLOWANCE?

When you take certain types of payment from your pension, they will use up the lump sum allowance. They include:

- Pension commencement lump sums (PCLS, also known as a pension tax-free cash lump sum); and
- The tax-free element of an Uncrystallised Funds Pension Lump Sum (UFPLS).

02

LUMP SUM AND DEATH BENEFIT ALLOWANCE

£1,073,100

THE LUMP SUM AND DEATH BENEFIT ALLOWANCE FOR MOST PEOPLE

The lump sum and death benefit allowance applies to the payments that use up the lump sum allowance as well as the tax-free element of serious ill health lump sums and certain non-taxable lump sum death benefits.

For most people the lump sum and death benefit allowance will be £1,073,100. Your lump sum and death benefit allowance could be different if you have lifetime allowance protection.

WHAT USES UP THE LUMP SUM AND DEATH BENEFIT ALLOWANCE?

Like the lump sum allowance, certain types of payment will use up the lump sum and death benefit allowance. These include:

- PCLS (also known as a pension tax-free cash lump sum).
- The tax-free element of an Uncrystallised Funds Pension Lump Sum (UFPLS).
- The tax-free element of serious ill health lump sums; and
- Non-taxable lump sum death benefits (excluding charity lump sum death benefits, trivial commutation lump sum death benefits and lump sum death benefits paid from funds crystallised before 6 April 2024).

The above lump sums (PCLS, UFPLS, Serious ill-health and most lump sum death benefits – not including the exclusions mentioned) are all examples of what are called ‘Relevant Benefit Crystallisation Events’ (RBCEs).

NEW RULES EXAMPLE

Let’s say you’d never taken pension benefits before and wanted to move £100,000 of your pension into drawdown. You can typically take up to 25% of the amount moving into drawdown as a PCLS (tax-free cash). It would be the PCLS amount of £25,000 that would use up your lump sum and lump sum and death benefit allowances.

This means you’d have £243,275 of your lump sum allowance and £1,048,100 of your lump sum and death benefit allowance left (based on the standard allowances).

03
OVERSEAS TRANSFER ALLOWANCE

£1,073,100

THE OVERSEAS TRANSFER ALLOWANCE FOR MOST PEOPLE

The overseas transfer allowance applies to any pensions that you transfer overseas to a Qualifying Recognised Overseas Pension Scheme (QROPS). For most people, the standard allowance will be £1,073,100. If you have lifetime allowance protection, your overseas transfer allowance may be different.

Transfers to QROPS that exceed the overseas transfer allowance will normally be subject to the Overseas Transfer Charge (OTC). There are also other circumstances where an OTC may apply.

OTHER THINGS TO CONSIDER

IF YOU'VE ALREADY USED UP SOME OR ALL OF THE LTA

Those people that have already used all their lifetime allowance will normally be assumed to have no remaining lump sum and lump sum and death benefit allowances.

For most other people, any previous lifetime allowance usage will usually affect the new allowances and will normally be based on the 'standard transitional calculation' as set out by HMRC. This calculation means the lump sum allowance will be reduced by 25% of the lifetime allowance that's already been used.

Standard transitional calculation example
Let's say someone had used 50% of their lifetime allowance with no protection, the calculation would broadly be:

50% x £1,073,100 × 25% = £134,137.50

The remaining lump sum allowance would be:

£268,275 – £134,137.50 = £134,137.50

The amount calculated above is also deducted from the lump sum and death benefit allowance unless:

- The individual received a serious ill health lump sum before 6 April 2024 and was under the age of 75 when the payment was made, or
- The individual died before 6 April 2024, was under 75 when they died, and a lump sum death benefit is paid to a beneficiary before 6 April 2024.

In which case the lump sum and death benefit allowance is reduced by 100% of the individual's previously used lifetime allowance.

Using the same example as for the lump sum allowance (50% of their lifetime allowance had been used). If that individual had received a serious ill health lump sum before the age of 75 then the amount of lump sum and death benefit allowance they've used would be:

50% x £1,073,100 × 100% = £536,550

HMRC have also confirmed that where an individual has used lifetime allowance before 6 April 2024, their overseas transfer allowance will be reduced by 100% of the individual's previously used lifetime allowance.

IF YOUR BENEFICIARIES INHERIT YOUR PENSION AS A LUMP SUM, BENEFICIARY DRAWDOWN, OR A BENEFICIARY'S ANNUITY

Lump sums
Like under the old lifetime allowance rules, if you die before age 75, any lump sums your beneficiaries get that are within your remaining lump sum and death benefit allowance will normally be free of income tax.

If any part of the lump sum goes over your remaining lump and death benefit allowance, then the excess will normally be taxable at your beneficiaries' marginal rate. If you die aged 75 or over, your beneficiaries will have to pay tax at their marginal rate on any lump sum taken.

Beneficiary drawdown or annuity
Like under the old rules, if you die before age 75, any income payments your beneficiaries get from a beneficiary drawdown or beneficiary annuity will normally be free of income tax. Unlike with most lump sum death benefits, the amount that can be inherited via beneficiary drawdown or annuity isn't subject to the new allowances. If you die aged 75 or over, any income payments your beneficiaries get from a beneficiary drawdown or beneficiary annuity will be subject to income tax at their marginal rate.

To find out more about what happens to your pension when you die, visit

www.hl.co.uk/free-guides/what-happens-to-your-pension-when-you-die

TRANSITIONAL TAX-FREE AMOUNT CERTIFICATE

Individuals (or the personal representatives of deceased individuals) who have already used up some or all of the lifetime allowance may be able to apply for a 'transitional tax-free amount certificate' which would replace the 'standard transitional calculation'. Individuals who were assumed to have no allowances remaining (as a result of using all their lifetime allowance) may also apply for these certificates.

With a certificate the calculation would instead broadly be based on the actual tax-free amounts that have been taken.

The certificates (issued by a pension scheme administrator) will confirm the amounts that should be taken off the starting allowances. For the:

- Lump sum allowance – it would be reduced by the value of each PCLS, the tax-free element of any UFPLS, the tax-free element of any stand-alone lump sum as well as 25% of the crystallised value of any pensions in payment prior to 6 April 2006
- Lump sum and death benefit allowance – it would be reduced by the total tax-free amount of lump sums paid when the lifetime allowance was in force as well as 25% of the crystallised value of any pensions in payment prior to 6 April 2006. This would be the total of all non-taxable lump sum Benefit Crystallisation Events (BCEs) and non-taxable lump sum death benefit BCEs paid to, or in respect of, the individual any PCLS paid after age 75, the tax-free element of any UFPLS paid after age 75, as well as 25% of the crystallised value of any pensions in payment prior to 6 April 2006.

From 6 April 2024, individuals can apply for these certificates to any scheme of which they are a member (or the personal representatives of a deceased member can apply on their behalf to a scheme of which they were a member immediately before they died). Amongst other things, evidence of all the lump sums referred to previously must be provided as part of the application, and a certificate can only be issued before the individual's first RBCE takes place.

Scheme administrators will have up to three months to accept or reject requests for these certificates. Once a certificate has been issued, it cannot normally be cancelled by the scheme administrator unless the information within it is inaccurate.

GET HELP FROM AN EXPERT

If you're nearing or will exceed the new allowances, you could consider getting help from an expert. A financial adviser can help you review your pension and tax situation. They can also give you a deeper understanding of how the new allowances could impact you, and help you understand:

- The effect on any lifetime allowance protections you may have taken out.
- If you're able to apply for protections that might give you higher allowances.
- Whether you could or should increase your pension contributions now the lifetime allowance has been completely abolished.

We can advise on how to make use of your tax allowances with careful financial planning but in complex situations your adviser may recommend speaking to an accountant or solicitor to complement their advice.

To find out more about financial advice with HL, visit

www.hl.co.uk/advice

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