

Pension tax changes effective from 6 April 2023 and 6 April 2024

What happened?

Cartwright's briefing issued in March 2023 summarised the changes announced in the Spring Budget and the Finance (No. 2) Act 2023. Here's a quick reminder of those changes.

A summary of what changed from 6 April 2023

Annual Allowances:

Annual Allowance (AA)	£60,000
Money Purchase Annual Allowance (MPAA)	£10,000
Alternative Annual Allowance	£50,000 (i.e. £60,000 - £10,000)
Tapered Annual Allowance	No change
Tapering AA taxable income threshold	£260,000
'Threshold' income level	No change £200,000 (i.e. £260,000 - £60,000 = £200,000)
Minimum AA after tapering	£10,000
Annual Allowance Charge If an individual exceeds the AA in a tax year	No change
Scheme Pays - Mandatory Scheme Pays } Voluntary Scheme Pays }	No change in the way it operates

Lifetime Allowance (LTA):

Life Time Allowance (LTA)	£1,073,100
Life Time Allowance Charge	Abolished
Tax of 55% on the excess lump sum over the LTA	Abolished
Tax of 25% on the excess pension over the LTA	Abolished
Pension Commencement Lump Sum (PCLS)	Capped at £268,275
For those without LTA protection	Any PCLS taken in excess of £268,275 will be taxed at the individual's marginal tax rate.
Individuals with LTA Protections	Individuals with a protected right to a higher amount retain this, subject to fulfilling the requirements of their protection.

Other lump sums:

Serious Ill-Health Lump Sum Defined Benefit Lump Sum Death Benefit Uncrystallised Funds Pension Lump Sum A LTA Excess Lump Sum	Under age 75 - If the lump sum is above £1,073,100 it will be taxed at the recipient's marginal rate.
---	---

What's changing from 6 April 2024?

Lifetime Allowance (LTA) is abolished - it's all about tax-free lump sums at retirement and other lump sums

Although the Finance (No. 2) Act 2023 announced the removal of the LTA, some of the detail as to how this will operate still needs to be clarified and it may not be until June 2024 that any legislation retrospective to 6 April 2024 becomes law. This is, therefore, only a summary of what is known so far from the draft legislation.

Although the LTA is to be abolished from 6 April 2024, it does not mean there are no tax-free limits.

Two new '**Allowances**' are being introduced:

- The '**Lump Sum Allowance**' – which is a cumulative limit of **£268,275** being the tax-free part of any lump sums taken payable across all registered pension schemes – there is no provision for this limit to be increased.

(Lump sums for this purpose are: Pension Commencement Lump Sums, Uncrystallised Funds Pension Lump Sum taken from Defined Contribution funds, trivial commutation and winding up lump sums)

This means that each time a lump sum is taken, any tax-free element is tested against the available '**Lump Sum Allowance**'. Tax-free lumps of broadly 25% of a benefit per scheme may be taken, up to an overall limit of **£268,275**. Any lump sum greater than **£268,275** is taxable as the recipient's income at their marginal tax rate.

- The '**Lump Sum and Death Benefit Allowance**' - which is the cumulative limit of **£1,073,100** on the total amount of tax-free lump sums payable to or in respect of an individual across all registered pension schemes - there is no provision for this limit to be increased.

(Lump sums for this purpose are: Pension Commencement Lump Sums, Uncrystallised Funds Pension Lump Sum taken from Defined Contribution funds, trivial commutation, small pots, winding up lump sums, lump sum death benefits or serious ill health lump sums)

This means that whenever a lump sum is taken or a lump sum death benefit paid, any tax-free element is tested against the available '**Lump Sum and Death Benefit Allowance**'; anything in excess of **£1,073,100** will be taxed as the recipient's income at their marginal tax rate.

LTA Protections – lump sums

Any individuals holding scheme specific protections or valid HMRC certificated protections will **not** lose those protections, but any lump sums taken above the protected amount will be taxed at an individual's marginal tax rate. Applications for IP2016 and FP2016 will now close from 5 April 2025.

Benefit Crystallisation Events (BCEs) cease to apply

Benefit Crystallisation Events (BCEs) cease to apply, and there will be no automatic BCE tests at age 75.

Currently if a Defined Contribution saver dies before age 75 with uncrystallised funds, those funds can be, if distributed within 2 years, paid tax-free, or used to purchase a dependant's or nominee's annuity. These will now be tested against the new allowances and will no longer be excluded from marginal rate income tax. Any Defined Benefit members, who have transferred benefits to Defined Contribution arrangements for this purpose, may therefore be affected by this change.



Pension Commencement Lump Sums

Three limits will apply and the lowest one will bite:

25% of the value of the benefit being 'crystallised'

Available '**Lump Sum Allowance**' **£268,275** (25% of £1,073,100)

Available '**Lump Sum and Death Benefit Allowance**' **£1,073,100**

Tests are to be made against both new '**Allowances**'.

Benefits drawn before 6 April 2024

The draft legislation does not clarify how benefits drawn before 6 April 2024 are to be treated. Previously, a record of the amount of benefits taken was expressed as a total percentage of the LTA, (not necessarily split between pension and tax-free lump sums) and advised to scheme members annually for them to keep track of their percentage LTA remaining. It may not be easy to determine how much of an individual's benefit represented a lump sum taken previously. It is also unclear what information will need to be recorded going forward.

Cartwright comment/what are we doing?

Although there is talk that, if there is a General Election in 2024, the Labour Party may reverse the proposed changes relating to the LTA, we believe this would be unlikely and unwinding them could create even more problems. In the circumstances, we are therefore preparing for the changes in advance whilst awaiting further clarification, by:

- reviewing member communications and scheme documents
- reviewing calculation routines
- providing training and guidance to the administrators regarding this change
- considering what, if any, changes will need to be made to our IT administration systems.

If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.

250 Fowler Avenue
Farnborough Business Park
Farnborough
Hampshire GU14 7JP

T: 01252 894883

E: enquiries@cartwright.co.uk

Marlborough House
Victoria Road South
Chelmsford
Essex CM1 1LN

T: 01245 293300

E: enquiries@cartwright.co.uk

