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First Briefing, March 2024

Changes to the Lifetime Allowance

In this briefing, we discuss Jeremy Hunt's March 2023 Budget, which put in motion significant changes to the taxation of pension benefits with the proposed abolition of the Lifetime Allowance (LTA).

Following the March 2023 Budget, the LTA tax charge was abolished from 6 April 2023, with benefits above the LTA now being taxed at the recipient's marginal rate of income tax. The plan was to remove the LTA from legislation from the start of the 2024/25 tax year.

The Finance Act 2024 formalises the new post LTA pensions tax regime. The Act received Royal Assent on 22 February and comes into effect on 6 April 2024.

HMRC has acknowledged publicly that a number of changes to the Act (and to other legislation) will be required. They plan to issue guidance on the LTA abolition in their newsletters. As a result, we have yet to see the finalised legislation, which will cover several aspects of the post LTA tax regime. We are also awaiting guidance from HMRC on how much of the new regime will operate.

For most members, the main change concerns how to measure tax-free cash against a new fixed monetary capped amount – the individual's Lump Sum Allowance (LSA), which will be set at £268,275. This will only affect a small group of individuals who have exceptionally large benefits. Bear in mind that an individual's LSA covers all their pension schemes, so someone with small scheme benefits might still be impacted by this change.

There is a chance, of course, that a future Labour government will row back on this policy (assuming that their post Budget statements are reflected in their manifesto).

First Actuarial's technical team is preparing our administrators and advisers for the changes.

How should schemes prepare for the change?

Schemes will need to update communications issued whenever a member accesses benefits. We've been training staff and reviewing processes ahead of the new requirements. We expect to issue a detailed note covering the LSA (and related changes) shortly.

You may be aware that pension scheme trust deed and rules have been amended in the past to reflect tax changes. Please note that pensions lawyers are expressing a range of views on this. However, we are aware that some rules will need amendments in light of the forthcoming changes (as was the case with A-Day in 2006). You may wish to ask your legal advisers to review your documentation to see if any action is needed, and whether they believe that any necessary change is time-critical.

You may have a view as to whether to notify your members of these changes. Certain scheme changes must be disclosed – but it's not clear whether this change is within scope of the legislation.

Some employers may also have a view on how to communicate personal tax changes to their employees. You may wish to check before proceeding with any communications.

At present, we envisage that many schemes will reference this in a Summary Funding Statement. However, some may wish to communicate separately on this matter, particularly if a significant number of members are affected. We will provide further guidance as the legislation evolves.

Trustees should now consider:

- Asking their legal advisers for advice on the tax change (and whether it should be disclosed)
- Giving members an update on the tax change (possibly with input from the employer) now or at a later date.

Please contact your First Actuarial consultant if you have any questions.