Standard Life
Part of Phoenix Group

Your questions answered
Lifetime Allowance Removal April 2024

The Government approved legislation removing the Pension Lifetime Allowance from 6 April 2024. For most people it'll have no impact as three new allowances were introduced to cap tax-free benefits at the same level as the Lifetime Allowance did.

There are some differences and new jargon was introduced so this document will help to answer some of the questions you might have about it.

The questions and answers are based on our understanding of the regulations as at 23 April 2024. Unfortunately, not all the required regulations were ready in time and HMRC are recommending that in some limited circumstances benefits should not be taken until the regulations have been approved. We strongly recommend that if you are in any doubt about the impact of the changes on your benefits that you seek specialist advice.

The questions we'll answer:

1. What was the Lifetime Allowance and when was it removed?

The Lifetime Allowance set a limit on how much could be saved into a pension during your lifetime before additional tax charges were applied. The government approved legislation in the 2023 Finance (No.2) Act that removed the Lifetime Allowance from 6 April 2024.

What is the impact on my Pension Benefits?

From 6 April 2024 onwards there is no longer a limit on the value of Pension benefits that can be built up without any additional tax charge.

The government has though introduced three new allowances that between them will act to limit the tax-free benefits from a pension in the same way that the Lifetime Allowance framework did.

2. What are the three new pension allowances?

Lump Sum Allowance – This is the maximum amount of tax-free lump sum that can be paid from all of your pensions. The limit is £268,275 which is the same as the maximum that could have been paid under the Lifetime Allowance framework (it's 25% of Lifetime Allowance which was £1,073,100.

Lump Sum and Death Benefit Allowance – This is the maximum amount of tax-free lump sum that can be paid if you die before the age of 75 or have a life expectancy of less than one year and so can be paid a serious ill-health lump sum

The maximum is £1,073,100 which is again the same amount that could have been paid under the Lifetime Allowance framework (it's 100% of Lifetime Allowance amount which was £1,073,100).

Overseas Transfer Allowance – This is the maximum amount of pension that can be transferred overseas to a Qualifying Recognised Overseas Pension Scheme without having a tax charge. The maximum is £1,073,100 which is the same amount that could have been transferred without a tax charge under the Lifetime Allowance framework (it's 100% of Lifetime Allowance amount which was £1,073,100).

3. What will happen to any Lifetime Allowance Protection I have?

As there is no longer any requirement for Lifetime Allowance tests anyone with protection had their allowances adjusted so that they give the same value of benefits as the old framework. We explain this in more detail below. The Lifetime Allowance certificate you received from HMRC will show what type of protection you have.

What if I have Fixed and Individual Protection?

- You will have a personal Lump Sum Allowance of 25% of your Protected Lifetime Allowance.
- Both your Lump Sum Death Benefit Allowance and Overseas Transfer Allowance limit will be 100% of your Protected Lifetime Allowance.

For example: if you have what's called Fixed Protection 2016 your Protected Lifetime Allowance is £1,250,000.

From 6 April 2024, your Lump Sum Allowance will be £312,500 (25%) and your Lump Sum and Death Benefit Allowance and Overseas Transfer Allowance will be £1,250,000 (100%) which is the same tax-free maximum as under the Lifetime Allowance.

What if I have Enhanced Protection?

- If you have a protected Pension Commencement Lump Sum rights your personal Lump Sum Allowance will be the maximum that could have been paid out on 5 April 2023.

What you need to consider: There is currently an error in legislation and HMRC have recommended that benefits should not be taken at this time until the error is corrected.

- If you do not have this protected your personal Lump Sum Allowance maximum will be £375,000.
- For both Lump Sum and Death Benefits Allowance and Overseas Transfer Allowance your maximum is the amount that you could have been paid on 5 April 2024.

For example: if you have protected Pension Commencement Lump Sum of 20% of your funds

From 6 April 2024, your Lump Sum Allowance will be 20% of the fund value on 5 April 2023 and your Lump Sum and Death Benefits Allowance and Overseas Transfer Allowance will be the value of your pension funds not yet in payment at 5 April 2024.

What if I have Primary Protection?

- If you have protected Pension Commencement Lump Sum rights your personal lump sum allowance will be the value of those protected rights but increased by 20%.
- If this is not protected then your personal Lump Sum Allowance maximum will be £375,000.
- For both Lump Sum and Death Benefits Allowance and the Overseas Transfer Allowance your maximum is £1.8m increased by the protection amount shown on your Primary Protection Certificate.

For example: if your Primary Protection Certificate has a protection amount of 0.26 and protected Pension Commencement Lump Sum of £400,000.

From 6 April 2024 your Lump Sum Allowance will be £480,000 (20% increase) and your Lump Sum and Death Benefit Allowance and Overseas Transfer Allowance will be £2,268,000 (£1.8m x 1.26) which is the same Tax-free maximum as under Lifetime Allowance.

What you need to consider:

Although Lifetime Allowance Protection increases your total personal tax-free allowances the benefits you receive from each pension policy may be limited by the value of the funds being taken and the rules that apply to the policy.

4. What happens if I took benefits before 6 April 2024?

Each of your new personal allowances will be reduced to take into account the value of benefits you already received.

Lump Sum Allowance

Your Lump Sum Allowance is reduced by the value of any tax-free lump sums paid to you before 6 April 2024.

Two methods that are used to calculate the deduction they're called the Standard method or the Alternative method:

Using the Standard method – It is assumed you took 25% of the value of benefits you used under the Lifetime Allowance framework before 6 April 2024 as a tax-free lump sum.

or

Using the Alternative method – Before you first take benefits after 6 April 2024 you can apply for a **Transitional Certificate** which would mean the deduction is based upon the actual tax-free cash you were paid rather than an assumed amount.

Please see **Question 6** on how you can get a Transitional Certificate

What you need to consider: There is an exception if you took benefits before 6 April 2006 and have taken no more since. In that case, the deduction is 25% of the value of your pension in payment. The value of the pension in payment is the annual payment at the time benefits are first taken after 6 April 2024 multiplied by 25.

Lump Sum Death Benefit Allowance

Your Lump Sum and Death Benefit Allowance is reduced by 25% of the value of benefits you used under the Lifetime Allowance framework.

If a serious ill-health lump sum has been paid under the old lifetime allowance rules (so before 6 April 2024) then the deduction is 100% of the amount paid.

Overseas Transfer Allowance

The Overseas Transfer Allowance is reduced by 100% of the value of benefits you used under the Lifetime Allowance framework.

5. What happens if I'm aged over 75 on 6 April 2024 and have not taken my benefits?

Under the Lifetime Allowance framework you would have had a benefits limit check at age 75. Unfortunately, even though no benefits were paid out you're treated as having taken benefits before that date and your new allowances are reduced.

We don't believe this is fair and we've challenged the government on this approach. The government has indicated it's considering changing legislation but you may wish to apply for a Transitional Certificate **(See Question 6)** if you are impacted by the reduction.

6. How do I get a Transitional Certificate showing I took less than 25% tax-free cash?

An **individual** may ask any registered Pension Scheme they're a member of to provide them with a **Transitional Certificate**.

The certificate will take into account the tax-free lump sums that have already been paid rather than an assumed amount based upon the Lifetime Allowance that's been used up. Where the individual has died a request can be made by their legal personal representative to any scheme they were a member of.

When making an application you have to provide evidence of all benefits in payment and the actual tax-free cash amounts received. We will accept copies of the benefit statements you received when taking benefits, provided they are on headed paper, but other providers may have additional requirements as to what evidence they require before they issue a certificate.

What you need to consider: You'll need to apply a Transitional Certificate before you first take benefits after 6 April 2024. Once an application for a certificate has been made it cannot be withdrawn. Evidence must be for all benefits in payment and confirm both the Lifetime Allowance used up at the time and the amount of any tax-free cash received.

We recommend you seek advice before any application is made as it can produce a lower maximum benefit in certain circumstances. We explain what that means in Question 8.

7. What if I am entitled to more than 25% of my fund as tax-free cash?

Your entitlement to more than 25% of the fund as a tax-free lump sum was protected in the same way as it was under the Lifetime Allowance framework.

What you need to consider: There is currently an error in the legislation. HMRC are working to fix this but it may take some time. We and most other providers are making payments on our understanding of how legislation should work but you may wish to check with your provider or adviser if you need to take benefits before HMRC corrected the legislation.

8. Does the removal of the Lifetime Allowance impact the amount of tax-free lump sum I will be paid?

For most people the tax-free lump sum is unchanged. There are some situations where the maximum possible lump sum can be higher or lower than the Lifetime Allowance framework allowed. There are also some situations where the legislation is incomplete and HMRC are recommending benefits are not taken until the legislation is corrected. We'll go through some examples here so you can see what we mean.

What happens when benefits taken before 6 April 2024 paid less than 25% of funds as a Pension Commencement Lump Sum?

The Lifetime Allowance framework calculation for the maximum Pension Commencement Lump Sum was based on the total value of benefits you took. The new framework is based only on the Pension Commencement Lump Sum you're assumed to have taken (25% of Lifetime Allowance used).

So, if you received less than the 25% of the Lifetime Allowance you could apply for the actual sum to be used in calculations.

For example: You used 60% of your Lifetime Allowance when taking pension benefits but didn't receive any of the benefits as a tax-free lump sum.

Using the Standard method

60% of Lifetime Allowance used is £643,860

25% assumed to be paid tax-free is £160,965

Lump Sum Allowance remaining

(£268,275 – £160,965) = £107,310

Using the Alternative method

Application made to use actual tax-free amount paid of £0 rather than assumed amount of 25% of the fund.

Lump Sum Allowance remaining

(£268,275 – £0) = £268,275

What you need to consider: To use the Alternative method explained above you would need to apply for a **Transitional Certificate** that confirms the actual amount of tax-free cash you took (see Question 6) before any benefits are taken after 6 April 2024.

What about Scheme Specific tax-free cash protection/Protected tax-free cash sum?

Now the Lifetime Allowance has been removed there has been a change to the legislation that sets out how you calculate the Pension Commencement Lump Sum for someone who back at 5 April 2006 was entitled to more than 25% of their fund in that way.

Using the old formula:

Tax-free cash at 5 April 2006 x £1.8m/£1.5m + 25% x (Fund Value less (Fund value at 5 April 2006 x current Lifetime Allowance/£1.5m)

Using the new formula:

Tax-free cash at 5 April 2006 x £1.8m/£1.5m + 25% x (Fund Value less (Fund value at 5 April 2006 x 0.7154)

It's only a small change but it replaces the use of Lifetime Allowance in the formula with a fixed number which is based on the final Lifetime Allowance of £1,073,100. Anyone who was allowed to a use a higher Lifetime Allowance in the old formula because they were registered for Fixed or Individual protection should see an increase in their entitlement.

For example: Someone with tax-free cash of £145,000 at 5 April 2006) when the fund value was £215,000 with a fund value today of £350,00 who is registered for Fixed Protection 2012.

Using the old formula:

Where the maximum Pension Commencement Lump Sum is £197,000

-£145,000 x £1.8/£1.5 + 25% of (£350,000 less (£215,000 x £1.8m/£1.5m)

Using the new formula:

Where the maximum Pension Commencement Lump Sum is £223,047.25

-£145,000 x £1.8/£1.5 + 25% of (£350,000 less (£215,000 x 0.7154)

What you need to consider: There is currently an error in the legislation which means that it is unclear how taking benefits with more than 25% entitlement to tax free cash will impact the amount of lump sum allowance you will have remaining. HMRC are working to fix this but it may take some time. You may wish to check with your provider or adviser if you need to take benefits before HMRC have corrected the legislation.

What happens if I've applied for Transitional Certificate?

A transitional certificate will take into account the actual amount of tax-free lump sum you were paid rather than assuming that you received 25% of the Lifetime Allowance used up. So, where you know you received less than 25% of the benefits as a tax-free lump sum from a pension scheme you would think you should apply for a transitional certificate.

But it's not that straightforward and the way the rules have been written you could be worse off if you make an application. And once you've applied you can't change your mind.

What if I took less than 25% tax-free cash but it was more than £268,275

The examples below show what happened if someone took benefits valued at £1.2m (66.66%) when the Lifetime Allowance was £1.8m and £270,000 (22.5%) was paid as tax-free cash.

Using the old method:

66.66% of Lifetime Allowance used is £715,328

Lifetime Allowance remaining is £357,772
25% allowed tax free is £89,443

Using the new standard method:

66.66% of Lifetime Allowance used is £715,328
25% assumed to be paid tax-free is £178,832

Lump Sum Allowance that remains (£268,275 – £178,832) = £89,443

Using the new alternative method:

An application is made to use actual tax-free amount paid of £270,000 rather than the assumed amount of 25% of the fund.

Lump Sum Allowance that remains (£268,275 – £275,000)

Even though you've taken less than 25% of the fund as a tax-free lump sum if you apply to use the alternative method your tax-free benefits would be less. This means you could pay more in tax.

What happens when you take benefits after age 75?

The examples below show what happens if someone is aged 76 and has no Lifetime Allowance Protection. In these examples they've taken a tax-free lump sum of £300,000 from a fund £400,000 (33.33%) when the Lifetime Allowance was £1.2m with tax-free cash protection from 6 April 2006.

They have a remaining pension valued at £550,000 that was subject to an age 75 Lifetime Allowance check when the value was £500,000 (46.59%) and the Lifetime Allowance was £1,073,100.

Using the old method:

33.33% of Lifetime Allowance used is £357,664
Lifetime Allowance remaining is £715,436

25% of Lifetime Allowance or 25% of fund if lower gives tax-free cash of £137,500

Using the new Standard method:

79.92% of Lifetime Allowance used is £857,620

25% assumed to be paid tax-free is £214,405

Lump Sum Allowance remaining (£268,275 – £214,405) = £53,870

Using the new Alternative method:

An application was made to use the actual tax-free amount paid of £300,000 rather than assumed amount of 25% of the fund.

Lump Sum Allowance remaining (£268,275 – £300,000) = £0

If you apply for a transitional certificate because you never received any benefits at age 75 then it would be the amount of tax-free cash actually paid that would be deducted. The problem is that this amount is £300,000 so the remaining Lump Sum Allowance is reduced to nothing.

What you need to consider: Even with the standard rules the lump sum is a lot lower than would have been for someone under the Lifetime Allowance framework. We don't believe this is the intention of legislation and we've challenged HMRC who has agreed to consider making changes.

We strongly recommend you seek advice before making any application for a Transitional Certificate as it can reduce the benefits available to you.

9. I have Fixed Protection/Enhanced Protection so can I pay contributions to my pension now?

As there is no Lifetime Allowance test you can now pay contributions into a pension, join a new pension arrangement or transfer benefits to a new pension scheme without losing your protection. But you can only do this if your certificate shows you applied for protection before 15 March 2023.

9A: What if I applied for Fixed Protection after 15 March 2023?

You can apply for Fixed Protection 2016 until 5 April 2025. Unlike an -application submitted before 15 March 2023, the protection will be cancelled if contributions are paid in or you join a new pension scheme. It won't be cancelled if you're joining a new pension scheme just to receive an authorised transfer.

10. Will any changes be made to the way benefits are taxed if they are above the Lump Sum and Death Benefit Allowance?

HMRC has agreed to maintain the current approach it uses for death benefits.

That means any lump sum payable on death of a policyholder can be paid out without checks against the available allowance. It's the responsibility of the legal personal representative to decide if the available allowance has been exceeded and how much is subject to tax.

The actual tax charge is paid by the person who receives the benefit, and the amount will depend upon their personal circumstances as it's treated as taxable income. Where there are multiple beneficiaries, the legal personal representative must decide who is responsible for the tax that is due.

What you need to consider: For death benefit cases tax is due on all benefits paid after death of a member over age 75. If a person dies who's under age 75 tax is due on the lump sum over the Lump Sum and Death Benefits Allowance or if it takes more than two years to settle their benefits on any amount paid.

This means there is a big difference to the tax treatment of benefits where a member died before age 75 between a cash lump sum being taken and when a pension income is taken either as one-off income or as a regular income.

This is because the legislation only limits lump sums paid before age 75. It does not limit the value of funds used to provide income payments as the Lifetime Allowance framework did.

For example: If a member dies age 67 with £2.0m fund.

The maximum lump sum that can be paid tax-free is £1,073,100 with any amount above that being taxed at marginal rate for that person.

But if the £2.0m was paid as income instead the whole amount would be tax-free.

10a: What about death benefits that come from an income drawdown fund?

If a person dies under the age of 75 and has pension funds held as income drawdown from before 6th April 2024 then any lump sum paid from these funds will not count towards the lump sum and death benefit allowance. This is because these funds will have already been tested against the lifetime allowance limit that was in place before 6th April 2024.

Lump sums paid from income drawdown funds that started after 6th April 2024 will count towards the lump sum and death benefit allowance.

What you need to consider: There is unfortunately an error in legislation at this time that can restrict the pre 6th April 2024 drawdown lump sums. HMRC are recommending that lump sum payments from pre 6th April 2024 income drawdowns are not paid until such time as they have fixed the error.

11. When tax is payable what marginal rate is used – is it the policyholder/member or the beneficiaries?

Where income tax is payable, it is the person receiving the benefit who gets taxed at their marginal rate of income.

So, on a retirement or serious ill-health it would be the policyholder/member and for a death claim it would be the beneficiary.

12. On death claims, who pays the tax when there are multiple payments, some taxable and some not?

Where there are multiple recipients of death benefits it is the responsibility of the legal personal representative to allocate payments and determine which payments are taxable and which are not.

13. What happens if Lifetime Allowance is reintroduced by a different Government?

If a change happens in the future, we'll provide guidance at that time.

14. Has the Government provided all the information needed to know what the changes mean?

No, there are still some areas of legislation that are unclear and need more explanation and some that HMRC has said it'll be changing.

15. How and when will the updates be made to customer letters, processes, marketing materials and Websites?

As you'll understand, it takes time to update all the regular communications we send to you where there have been big changes like this one. We appreciate your patience while we make those changes. We'd suggest when you read any information about the Lifetime Allowance in the meantime take it as if it continues after 6 April 2024. This is because the new allowances are intended to only impact the same people who were impacted by the lifetime allowance limits.

Publication date 23 April 2024

www.standardlife.co.uk

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