



Abolition of the lifetime allowance

Background

From 6 April 2023 the lifetime allowance (LTA) charge is to be removed through legislation introduced in the Spring 2023 Finance Bill, which is currently going through parliament.

This change means the LTA remains in place from 6 April 2023, and it's just the LTA charge itself that's being removed in the 2023/24 tax year. The pension scheme administrator will still need to carry out lifetime allowance checks when paying benefits and to issue benefit crystallisation event (BCE) statements.

The LTA is to be fully abolished from the 2024/25 tax year with the appropriate legislation contained in a future Finance Bill.

Bear in mind this isn't yet legislation, the Finance (No. 2) Bill is likely to receive Royal Assent, and become law, around early Summer.

Limiting the upside

The Labour Party has intimated that they'll reintroduce the LTA.

However, a counter argument to this is that it was a Labour government that introduced the LTA, initially at £1.5m rising ultimately to £1.8m. It was firstly the coalition government, then the present government that were responsible for reducing it, ultimately to as low as £1.0m in 2016.

There's potentially a two-year window, and certainly one tax year, to maximise the opportunities provided by the proposed changes.

- Increase, or recommence, funding of pensions for those previously dissuaded from doing so over concerns they'd exceed their LTA. If carry forward of unused annual allowance is available, then up to £180,000 could be paid in 2023/24 tax year, for example. Tapering of the AA may limit this amount, as would the money purchase annual allowance.
- Those who've fully utilised their LTA, could fund further pension provision without an LTA charge being applied. They will, however, have no entitlement to any additional pension commencement lump sums.
- If there's a perceived risk that a Labour government could be elected, individuals with uncrystallised funds greater than their LTA may wish to crystallise the full amount to hopefully reduce an LTA charge in future. There's also scope for reinvesting any pension commencement lump sums in an ISA or GIA.

Action

- Identify high net worth clients who, due to the perceived negativity surrounding pension funding, have disengaged from funding their pension in recent years.

