

31st October 2023

# Know Your Limit: The Lifetime Allowance

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The Lifetime Allowance was introduced in April 2006 by the Labour party ('A-Day').



A mechanism for limiting tax-relieved pension savings in registered pension schemes, in addition to and separate from the Annual Allowance.



The maximum amount of tax-relievable pension savings an individual can benefit from over the course of their lifetime was originally capped at £1.5m.



People could contribute to pension over this limit but would ultimately be subject to Lifetime Allowance Charges of 25%, or 55% if taking excess as a lump sum.



Protection was available in various forms on A-Day and whenever the limit was subsequently changed, although this normally required contributions to cease.

## History of the Lifetime Allowance (LTA)

# History of the Lifetime Allowance



Changes to the Lifetime Allowance Limit over time

Tax year	Lifetime Allowance
2006-7	£1.5m
2007-8	£1.6m
2008-9	£1.65m
2009-10	£1.75m
2010-12	£1.8m
2012-13	£1.5m
2013-14	£1.5m
2014-16	£1.25m
2016-18	£1m
2018-19	£1,030,000
2019-20	£1,055,000
2020-23	£1,073,000

## ABOLISHMENT – SPRING BUDGET 2023

- ❖ Increase in economic inactivity since pandemic, larger than in other developed economies.
- ❖ Strong labour market critical for growth in UK, particular concern over certain sectors such as NHS - *an estimated 80% of NHS doctors will not receive a tax charge following the changes.*
- ❖ Incentivise those currently considering retirement to remain in employment, and to encourage those who have already left the workforce to return.
- ❖ In Finance (No. 2) Act 2023, legislation was introduced to prevent individuals from becoming liable to the Lifetime Allowance charge from 6th April 2023 onwards.

## KEY INITIAL CHANGES – APRIL 2023


- ❖ The Lifetime Allowance Charge has been abolished, although the Lifetime Allowance Limit remains in place until April 2024.
- ❖ No tax charge will therefore apply when crystallising benefits in excess of the Lifetime Allowance limit, that would have otherwise incurred a 25% charge pre-April 2023 when taking benefits, transferring to QROPS, reaching age 75 or on death.
- ❖ However, payments which would have been subject to a 55% charge are now subject to income tax at the individual's marginal rate.
- ❖ Annual Allowance increased to £60,000 from £40,000.
- ❖ Money Purchase Annual Allowance increased to £10,000 from £4,000.
- ❖ Government stated that further changes were required to support the removal of the Lifetime Allowance Charge, to deliver on the removal of the Lifetime Allowance Limit and to ensure that pension tax continues to function effectively.

**Draft Legislation came out for consultation on 18 July 2023. The main changes proposed are:**

- ❖ Lifetime Allowance Limit will be abolished.
- ❖ Lump Sum Allowance of £268,275 will be used to restrict Tax-Free Cash/Pension Commencement Lump Sums.
- ❖ The lesser of the available Lump Sum Allowance and 25% of fund value will apply.
- ❖ Those with Lifetime Allowance Protection in place can still rely on this protection to increase the available Lump Sum Allowance.



Proposed legislation  
from 6 April 2024

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- ❖ Authorised lump sums and lump sum death benefits will be tested against a new threshold, set at the same level as the present Lifetime Allowance, £1,073,100 – the Lump Sum and Death Benefits Allowance.
  - ❖ Individuals will not pay tax where lump sums do not take them above this level.
  - ❖ Any lump sums paid above this level will be taxed at the individuals' or beneficiaries' marginal rate.

#### **Protections and lump sum protections**

- ❖ Give eligible individuals until 5 April 2025 to apply for FP 2016 and IP 2016.
- ❖ Ensure that individuals with valid lump sum protections retain their right to a higher level of tax-free lump sum.
- ❖ Ensure that individuals with valid Lifetime Allowance protection retain their right to higher lump sum death benefits.

Proposed legislation  
from 6 April 2024



THE LABOUR PROMISE

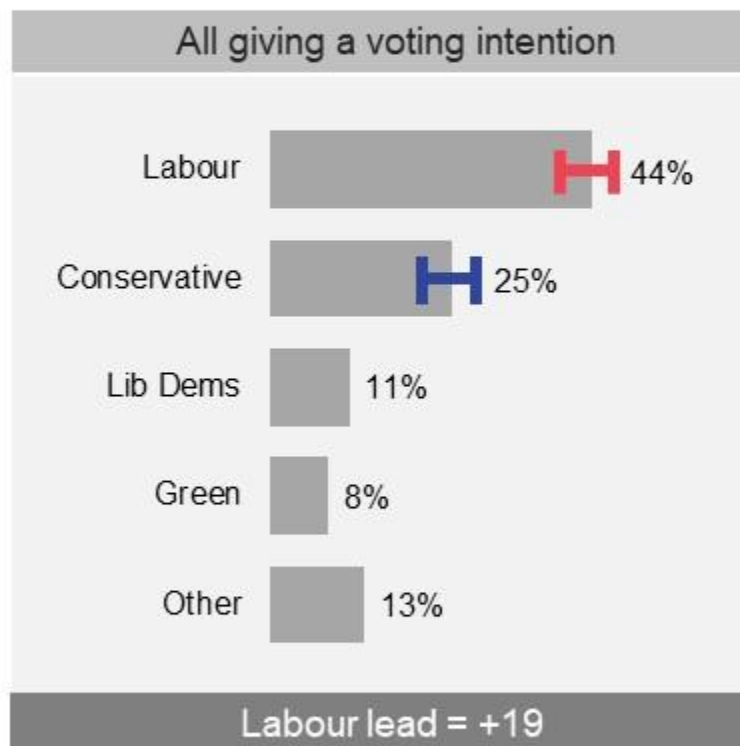
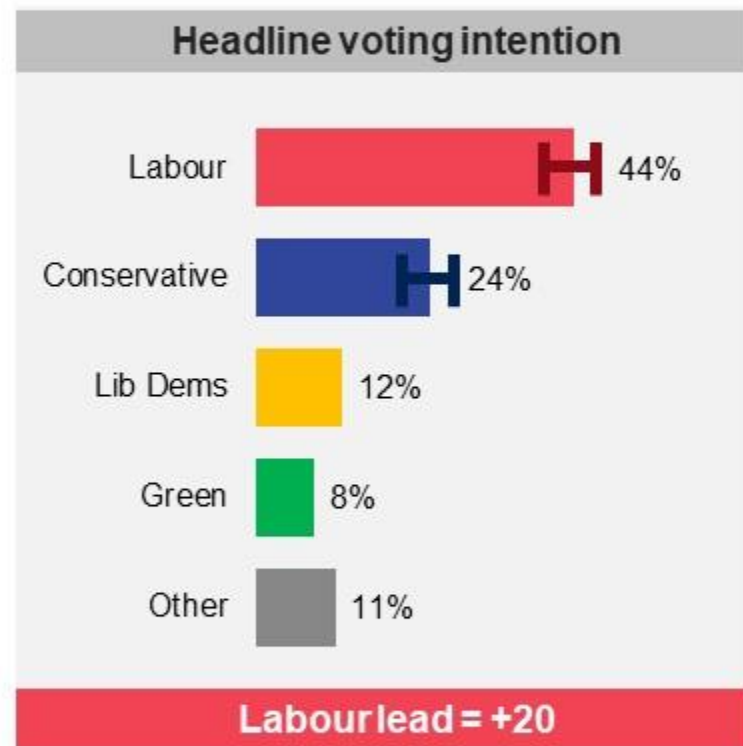


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# Voting Intention: September 2023

How do you intend to vote in the General Election? Will you vote...?



Base: 1,004 British adults 18+, 6-12 September 2023; Headline Voting Intention: all 9/10 certain to vote, always/usually/it depends vote in General Elections = 639. Margin of error is displayed at +/- 4%. All polls are subject to a wide range of potential sources of error. On the basis of the historical record of the polls at recent general elections, there is a 9 in 10 chance that the true value of a party's support lies within 4 points of the estimates provided by this poll, and a 2 in 3 chance that they lie within 2 points. This is especially important to keep in mind when calculating party lead figures.

Source: Ipsos Political Monitor



# THE LABOUR PROMISE

- ❖ If the polls are to be believed, a Labour-led government is likely to be elected at the end of next year.
- ❖ Ipsos survey of UK Voting Intention - October 2023 Labour 44%, Conservative 24%
- ❖ That new government could make an emergency Budget statement during 2024/25 and implement changes with effect from April 2025 or even sooner.
- ❖ Labour have been quiet as to any proposed tax changes, but one tax measure which has been promised is the reversal of the pension measures announced in the 2023 Budget, including the reinstatement of the LTA.
- ❖ Following the budget the Shadow Chancellor, Rachel Reeves, stated: “The Budget was a chance for the government to unlock Britain’s promise and potential. But the only surprise was a one billion pound pensions bung for the one per cent, a move that will widen the cost of living chasm. At a time when families across the country face rising bills, higher costs and frozen wages, this gilded giveaway is the wrong priority, at the wrong time, for the wrong people. “That’s why a Labour government will reverse this move.”



- ❖ A spokesperson for Labour said: ‘The British Medical Association provided evidence to the Health Select Committee which suggested that it could cost as little as £32m to fix pensions disincentives for doctors-only, just as there is a targeted scheme for judges.
- ❖ ‘Labour has been calling on the Government to fix this issue for months, but this way the Conservatives will incur a cost of £1bn and give a tax cut to thousands of the richest people in Britain who aren’t doctors, which we think is a poor use of taxpayers’ money. It’s a £1bn sledgehammer to crack a nut.’
- ❖ NMA 10 OCT, 2023
- ❖ Pension LTA plans still being decided, Labour Treasury MP says
- ❖ Comments by shadow Treasury minister Tulip Siddiq suggest policy decisions are yet to be made on restoring allowance.

PLANNING  
OPPORTUNITIES





UK Pension Members who would have suffered Lifetime Allowance Charges upon crystallisation pre-April 2023 can now crystallise their benefits without suffering any Lifetime Allowance Charges.



The threat of a Labour Government reintroducing the Lifetime Allowance is a clear cause for concern.



Many advisers are advising appropriate clients to crystallise their benefits now, whilst there is certainty over the rules.



This can be done by taking PCLS and designating funds to drawdown, where the client is over age 55 – OR by transferring to QROPS.

## Benefit Crystallisation

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## Qualifying Recognised Overseas Pension Scheme



A QROPS is an overseas pension scheme that meets HMRC's criteria to receive transfers from UK registered pension schemes



Main benefits of QROPS are post-retirement and apply to non-UK residents



QROPS have long been used by and remain available to UK residents, even if no intentions of relocating



Same flexibility and tax treatment as UK SIPP's for UK residents – no Overseas Transfer Charge using EEA QROPS



# What are QROPS?

# QROPS for Lifetime Allowance Planning



## QROPS vs Lifetime Allowance

- ✓ Where fund value could breach the Lifetime Allowance in the UK Pension
- ✓ A transfer to QROPS is a Benefit Crystallisation Event (BCE8) – *no Lifetime Allowance Charges or Income Tax Payable.*
- ✓ Once the pension funds have been transferred to QROPS they are able to grow without further assessment as regards to LTA limits.
- ✓ QROPS are not tested against the LTA when drawing benefits, when reaching age 75 or at any other time.


LIFETIME ALLOWANCE  
CASE STUDY



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A photograph showing a person from behind, wearing a grey long-sleeved shirt and a watch, sitting at a wooden table and writing in a notebook with a pen. Another person's hands are visible in the background, gesturing during a discussion.

## Lifetime Allowance Case Study

- Mr Michaels is a 50-year-old UK resident and UK domiciled client, with UK pensions totalling c£950,000.
- He has secured Fixed Protection 2016 at £1.25m.
- His investment manager is targeting NET growth of 5% per annum. If this level of growth is achieved, the client pensions will exceed his LTA at age 55.
- Mr Michaels is intending to retire at age 65.
- At age 65, it is estimated that the fund will have grown to c£1,975,000 and this would have resulted in a 25% LTA charge of c£181,000 if the pensions are left in the UK (if the LTA weren't abolished).

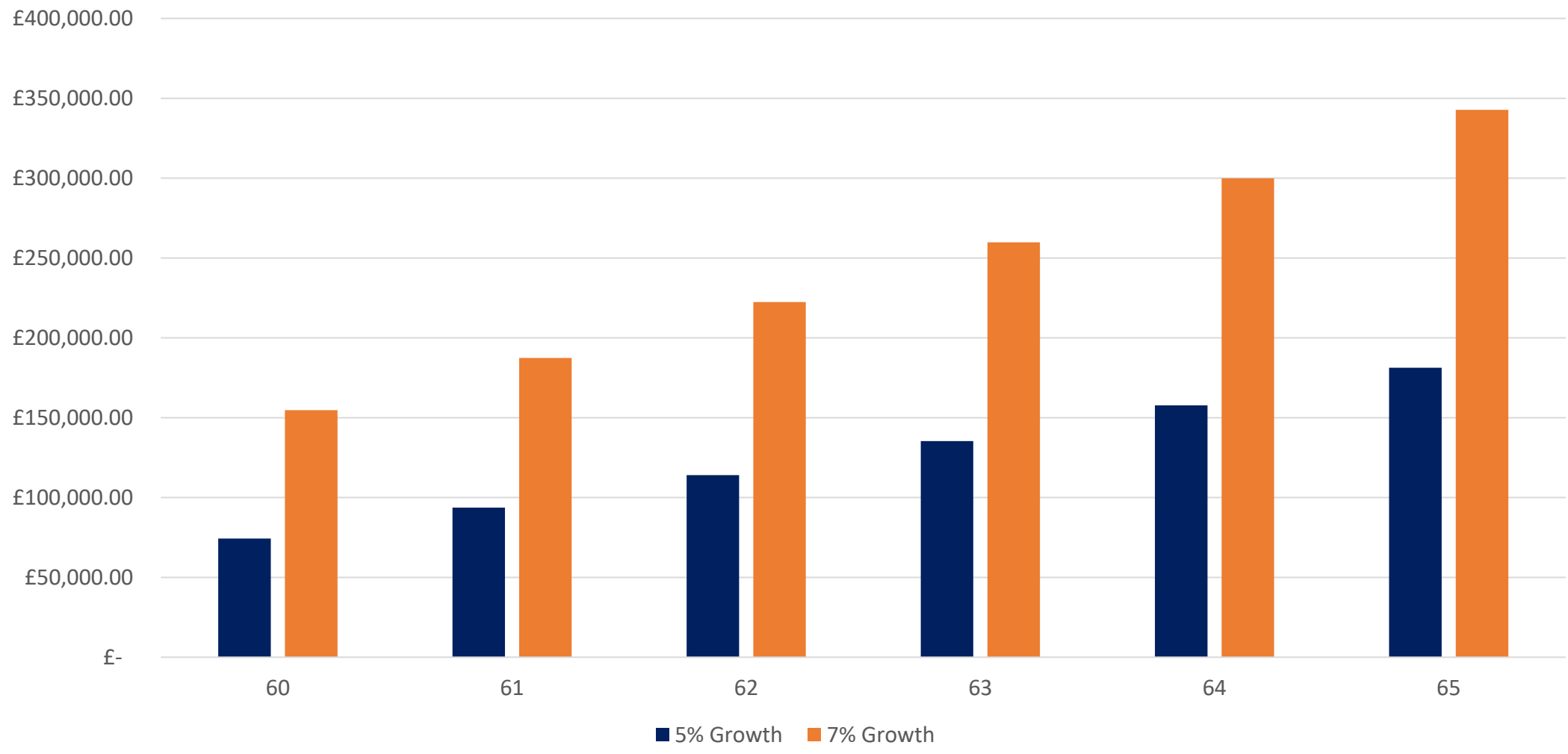


## Lifetime Allowance Case Study

- If Mr Michaels were to transfer his benefits to a QROPS now, with the help of his UK IFA, supported by QB Partners, he would use up c76% of his LTA and would not pay any LTA charges on transfer, nor at retirement.
- Furthermore, Mr Michaels will still have c24% of his LTA available.
- We would look at Malta QROPS for a UK or EEA resident, where the client should have access to the same investment solutions, and where they can take 25% Tax-Free Cash from age 55, along with Flexible Drawdown.

# Lifetime Allowance – Case Study

## Potential LTA Charge in UK



# MYTH BUSTING



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## Myth Busting

Telegraph Article October  
2023

There is nothing within any government legislation or scheme rules to prevent payments to non-UK residents or non-UK bank accounts. However, some pension schemes will not accept instructions from non-UK residents and the use of a scheme designed for 'International' residents is recommended.

There is nowhere in the HMRC pension tax manual to say that it is a requirement for a pension transfer to be from a UK resident. Some Pension Schemes will insist that the member transfers once they have left the UK.

This could be a misunderstanding of regulation regarding tax relief on pension contributions, but there's nothing to stop an overseas individual contributing to a UK pension, they just won't get the tax relief.

Most UK Pension Schemes should offer the option to take Death Benefits as a Lump Sum or an Income. A Lump Sum on Death after Age 75 could result in a significant tax bill to the Beneficiaries.

# Myth Busting



## Risk

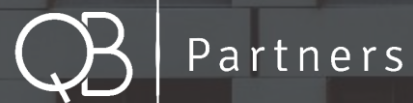
- There is a quote from Royal London which states the reason that 'cross-border pensions business' is not being offered by providers in the UK is due to the 'risks and complexity involved for customers'.
- Novia Global are very aware of this risk, as where some others have no experience or access to the advised market, they offer this service.

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