Group Life Assurance

Abolition of the Lifetime Allowance (LTA)
Fourth update – 4 March 2024

The information contained within this leaflet is based on our understanding of current tax law including the Finance Act 2024 which sets out how the Lifetime Allowance is abolished from 6 April 2024.

The scope of this leaflet is limited to defined benefit lump sums paid from a registered scheme set up under discretionary trust, such as those our Group Life Assurance policy is designed to insure. The Finance Act 2024 introduces changes for other registered scheme benefits too.

The information in this leaflet doesn't constitute tax advice. We suggest you seek your own tax or legal advice as appropriate.

The Government's Spring 2023 budget confirmed changes to the way benefits above the registered scheme Lifetime Allowance (LTA) are taxed from 6 April 2023, and an intention to abolish the LTA from 6 April 2024. The Finance Bill that set out how the LTA is abolished has recently received Royal Assent and is now an Act of Parliament.

The LTA is the total amount of tax advantaged benefits an individual can receive from registered schemes over the course of their lifetime. An individual may join many registered schemes, and these may provide different retirement and death benefits.

Alongside the removal of the LTA, the new Finance Act 2024 introduces three new allowances from 6 April 2024, including a Lump Sum and Death Benefit Allowance (LSDBA). We understand this new allowance will apply to the non-taxable element of most lump sums paid for an individual from registered schemes, including those insured under our Group Life Assurance product.

When will the Lifetime Allowance be abolished?
The LTA is abolished from 6 April 2024.

What happened to the Lifetime Allowance Charge?
From 6 April 2023 the lump sum death benefits we insure under our Group Life Assurance policies and paid through a registered scheme set up under a discretionary trust started to be taxed differently:

- Any benefit within the LTA remains free of income tax and inheritance tax, provided the member was aged under 75 at the date of their death.
- Any benefit above the LTA:
  - is no longer subject to the Lifetime Allowance Charge (55%), and
  - is now taxed as income at the marginal rate of the person, or persons, receiving benefit.

What is the new Lump Sum and Death Benefit Allowance (LSDBA) and how does it apply to Group Life Assurance paid through a registered scheme?
The Finance Act 2024 introduces the LSDBA from 6 April 2024 with a value of £1,073,100.

The LSDBA applies to the non-taxable portion of most lump sums paid from a registered scheme, including the defined lump sum death benefits insured under our Group Life Assurance policies. This means an individual's LSDBA is reduced each time they receive a relevant non-taxable lump sum from a registered scheme. Following their death any uncrystallised funds and defined lump sum death benefits (such as those insured under a Group

Life Assurance policy), as well as any death benefits payable from any other pension savings they may have, will also be tested against the remaining allowance.

Any part of the defined lump sum death benefit above the LSDBA, is taxed as income at the marginal rate of the person, or persons, receiving the benefit.

How will the correct income tax be deducted from registered scheme lump sum death benefits?
HMRC have confirmed that it will continue to be collected using the current method.

The deceased's Legal Personal Representative (LPR) needs to be notified of the lump sum payment from a registered scheme. They should be aware of other registered scheme payments and run checks to identify if any of the lump sum is subject to income tax. The LPR will then need to report, and provide details of, any chargeable amounts to HMRC.

Any part of the benefit above the tax-free allowance is subject to income tax at the marginal rate of the person, or persons receiving it. HMRC will contact the relevant recipients to inform them the amount of tax due, who in turn will need to arrange payment.

We suggest the trustees inform those receiving any benefit, that the LPR should be checking to see if any tax is due on the benefit paid.

What will happen to policies that have any reference to the LTA within them, for example where benefits are restricted to the LTA?
We believe it's important to provide continuity of cover and give employers and trustees the opportunity to consider their options. When the LTA is abolished, we will continue to operate any policy referring to the standard LTA as if it still existed with its final value, using £1,073,100 in any calculations. If the context relates to an individual's available LTA after taking benefit or allowing for a LTA protection, we will interpret the reference to mean that individual's available LSDBA. We will adopt the same approach for any Excepted Group Life Policies (EGLP), which are taxed differently, but may refer to the LTA in its eligibility conditions or benefit calculation.

We will provide revised policy terms that include an updated term confirming how references to the LTA are interpreted, and if appropriate, an updated 'standard lifetime allowance' definition. The policy terms and policy code will otherwise remain unchanged. When published, revised versions of the policy terms will be easily identified by a revision date and note inside the front cover.

We encourage employers to regularly review their employee benefits, scheme documents and associated insurance to make sure they're up to date and continue to meet their needs. Please tell us in advance if you'd like to update a policy, for example replacing LTA references in the benefit calculation with a monetary amount. Our scheme underwriters will consider the request and confirm if any terms apply.

Will there be any changes for individuals who hold LTA protections?
This is more of a personal tax matter, however it is factor an employer may still wish to consider when they are setting up or reviewing employee benefits. Employees with LTA protections would normally have significant benefit entitlements within a registered scheme.

We understand individuals who hold valid enhanced protection or any valid fixed protections can, from 6 April 2023, accrue new pension benefits, join new registered schemes or transfer without losing this protection.

The Finance Act 2024 also includes transitional provisions for those who have LTA protections or LTA enhancement factors. This means they may have an enhanced personal LSDBA.

HMRC have included further detail about the transitional provisions for LTA protections or enhancements within their newsletters. If an individual wants to know more, we suggest they talk to their adviser.

What will be the future of Excepted group life policies (EGLP)?
Completely different tax rules apply to EGLP, and we believe they continue to have their place. Any benefits paid from an EGLP do not count towards an individual's LTA, and they won't count towards the new LSDBA either.

When setting up or reviewing benefits paid on the death of an employee, we believe many employers will continue to consider the relative merits of EGLP and registered scheme taxation.

Further reading

For HMRC pension scheme newsletters
https://www.gov.uk/government/collections/hm-revenue-and-customs-pension-schemes-newsletters

This leaflet and the information it provides is designed for professional financial advisers only.

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