

Pension and product taxes

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Agenda

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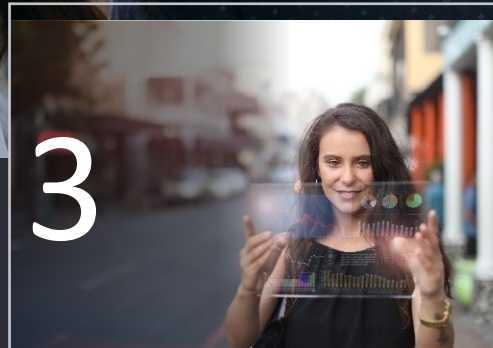
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'CRS2' consultation



Lifetime Allowance (LTA) abolition

Lifetime Allowance (LTA) abolition — legislative changes

- ▶ Lifetime allowance (LTA) abolished with effect from 6 April 2024.
- ▶ HMRC worked with industry experts via LTA working group.
- ▶ Legislative changes made via the Finance Act 2024 and the Pensions (Abolition of Lifetime Allowance Charge, etc.) Regulations 2024.
- ▶ Guidance and further updates made via numerous HMRC pension schemes, newsletters and associated FAQs with updates also made to the Pension Tax Manual and other gov.uk pages.
- ▶ Certain areas still not legislated correctly as current legislation contains omissions or unintended consequences.
- ▶ A further set of regulations to be effective from 6 April 2024 is yet to be published by HMRC (at time of writing) so certain members may need to delay payments until legislation is certain.
- ▶ Risk of further changes to rules and new legislation following a change in government.

Lifetime Allowance (LTA) abolition — new rules from 6 April 2024

- ▶ Lump sum and death benefit allowance (LSDBA): replaces the LTA and remains at the current level of £1,073,100 (unless protection held).
- ▶ Lump sum allowance (LSA): maximum cumulative tax-free lump sum an individual can receive, being £268,275 (i.e., 25% of £1,073,100, unless protection held).
- ▶ Pension commencement excess lump sum (PCELS): i.e., if conditions are met, a PCELS can be paid; this would be subject to UK income tax.
- ▶ If an individual has already used some of their LTA prior to 6 April 2024 and is now due to receive a tax-free amount through a relevant benefit crystallisation event occurring after 5 April 2024, a default transitional calculation will apply to determine how much of the new allowances a member has remaining.
- ▶ The default calculation will take 25% of the LTA previously used and deduct this amount from the new lump sum allowances.
- ▶ The default calculation can be replaced if members apply for a transitional tax-free amount certificate (TTFAC) — calculations necessary to determine whether beneficial or not (may not be obvious).

Lifetime Allowance (LTA) abolition — new rules from 6 April 2024

- ▶ Previous valid LTA protections and enhancements will increase the value of LSA and LSDBA and impact on the application of the transitional rules.
- ▶ Fixed protection 2016 has an application deadline of 5 April 2025.
- ▶ Protections applied for before 15 March 2013 now normally cannot be lost — a change to previous rules.
- ▶ LSDBA/LSA based on previously protected LTA amount.
- ▶ LSDBA with enhanced protection equivalent to uncrystallised fund value on 5 April 2024.
- ▶ Tax free lump sum protections are capped at value on 5 April 2023.
- ▶ Calculations required to determine if TTFAC is needed.

Lifetime Allowance (LTA) abolition — new rules from 6 April 2024


- ▶ If payment of a member's pension starts after 6 April 2024, a relevant benefit crystallisation event statement must be provided by the scheme administrator or insurance company:
 - ▶ Upon payment of an initial lump sum (within three months of the RBCE), and
 - ▶ Annually thereafter if a pension is being paid (other than in respect of pensions in payment before 6 April 2006)
- ▶ RBCE statement shows how much LSA and LSDBA have been used up by the event.
- ▶ Penalties may apply for failure to supply a certificate.



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Pension Relief at Source (PRAS) digitisation

Digitisation of Pension Relief at Source



- ▶ Announced in Autumn Budget 2021 to provide more streamlined reporting and a reduction in errors
- ▶ Implementation pushed back to at least April 2027 due to concerns that proposed solution would not meet the needs of largest schemes
- ▶ Individual level data to be provided to HMRC who will match member data to their own records and calculate tax relief due
- ▶ Large volumes of data required
- ▶ Risk of relief not being paid if records do not match — how to deal with errors
- ▶ Pre-funding of tax reclaims — risk if relief not paid



A new UK ISA

A new UK ISA

- ▶ 'UK ISA' announced in 2024 Spring Budget
- ▶ Provides an additional £5,000 allowance on top of existing £20,000 allowance
- ▶ Extra allowance must be invested in UK companies
- ▶ Current consultation on operation of the new ISA closes today (6 June)
- ▶ May replicate previous PEP rules as already understood by ISA managers
- ▶ What types of investments to include, e.g., shares, collective investments, corporate bonds, gilts, cash, other
- ▶ Design of rules around subscription, transfers and cash holding limits
- ▶ Responses to consultation on likely take-up rates and barriers to implementation will inform government timeline
- ▶ Idea may be scrapped by a change in government



Automatic Exchange of Information — CRS2 consultation

Automatic Exchange of Information — ‘CRS2’ consultation

- ▶ Current Common Reporting Standard (CRS) requires sharing of financial information for non-UK resident account holders annually by 31 May in respect of preceding calendar year.
- ▶ Government consultation on extending reporting to domestic account holders closed on 3 June.
- ▶ Goal is to prevent separate reporting requirements for domestic and overseas data — bringing all reporting in line with CRS (rather than having separate reporting for bank and building society interest in the UK).
- ▶ Also reduces work and improves risk-assessment for HMRC.
- ▶ Likely to impact institutions that are in scope of CRS but who don't have any (or many) reportable accounts.
- ▶ There is an assumption that existing exemptions would still apply (e.g., ISAs, tax-exempt savings accounts, pensions).
- ▶ There is a suggested timeline of first reporting in 2027 of data collected during 2026 — systems will need to be designed and in place in advance of this to ensure accurate and timely reporting.



Audience Q&A
Any questions?



Thank you

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