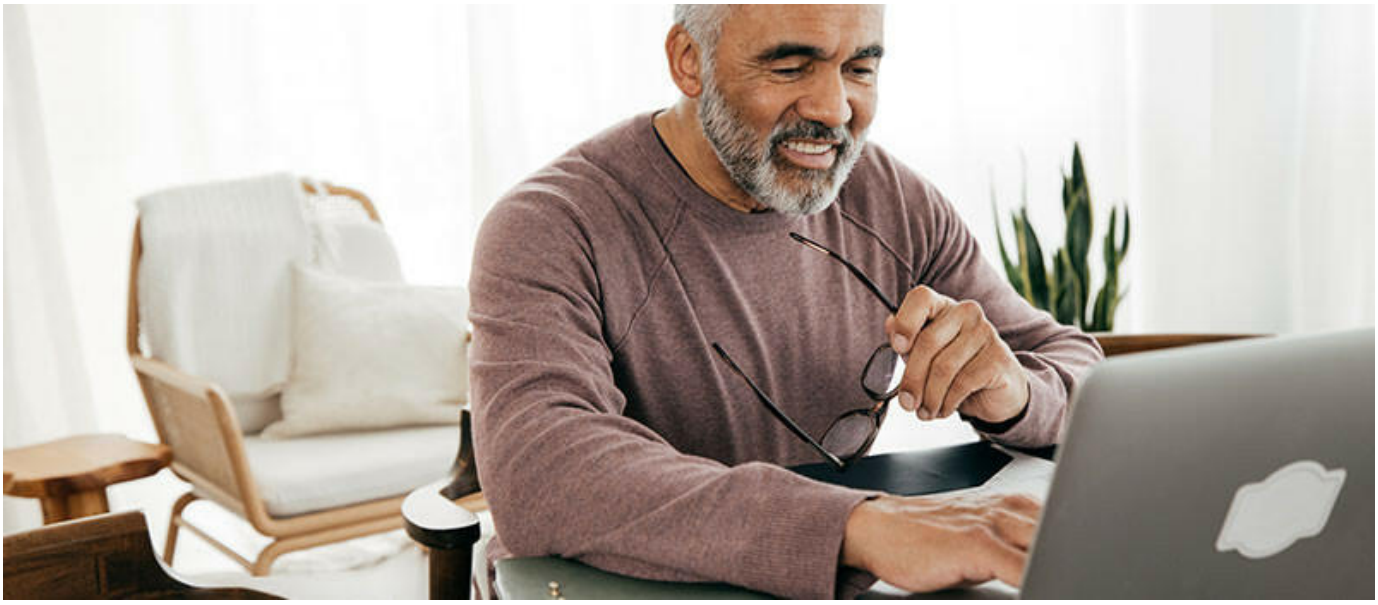
Draft Finance Bill legislation: abolishing the pensions lifetime allowance

Personal tax



23 October 2023

The CIOT has responded to draft legislation published on 18 July 2023 abolishing the pensions lifetime allowance from 6 April 2024 and making changes to the tax treatment of amounts of tax-free cash and lump sums an individual can receive, subject to lifetime allowance or lump sum protection (tinyurl.com/nhzeauv8).

Our response, which can be read in full at www.tax.org.uk/ref1185, covered the following matters:

- considerations for crystallised lump sum death benefits in order to apply consistency to their treatment;
- the proposal to begin testing payments in respect of small pension pots against the new allowances;

- the timetable for implementation of the new rules by 6 April 2024 – since the abolition of the lifetime allowance charges has already taken place, we do not think there is any urgency for the subsequent legislative tidy up;
- the (previously unannounced) proposal to begin taxing drawdown and annuity proceeds of uncrystallised defined contribution funds followings deaths before age 75; and
- transitioning from the old to the new regime.

With regard to lump sums, the draft legislation is intended to limit the total amount of tax-free cash an individual can receive to a maximum of £268,275 unless they hold a valid lifetime allowance or lump sum protection. It will also limit the total amount of lump sums an individual can receive before marginal rate taxation applies to £1,073,100 unless they hold a valid lifetime allowance protection.

Additionally, at the Spring Budget 2023 it was announced that tax-free lump sums would be limited to £268,275 ‘and frozen thereafter’, save for cases where protections applied. While the policy paper published alongside the draft legislation was silent on the matter, it is assumed that the government’s intention remains for allowances to be frozen.

In our response we also suggested rounding-up the allowance and/or periodically reviewing the allowance and indexing it.

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