Pensions – what's changed?

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GLOBAL EMPLOYER SERVICES TURN IT UP

Contents

Annual allowance quiz

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What is the maximum annual allowance for 2023/24 (excluding any carry forward)?

- A £4,000
- B £10,000
- C £40,000
- D **£60,000**

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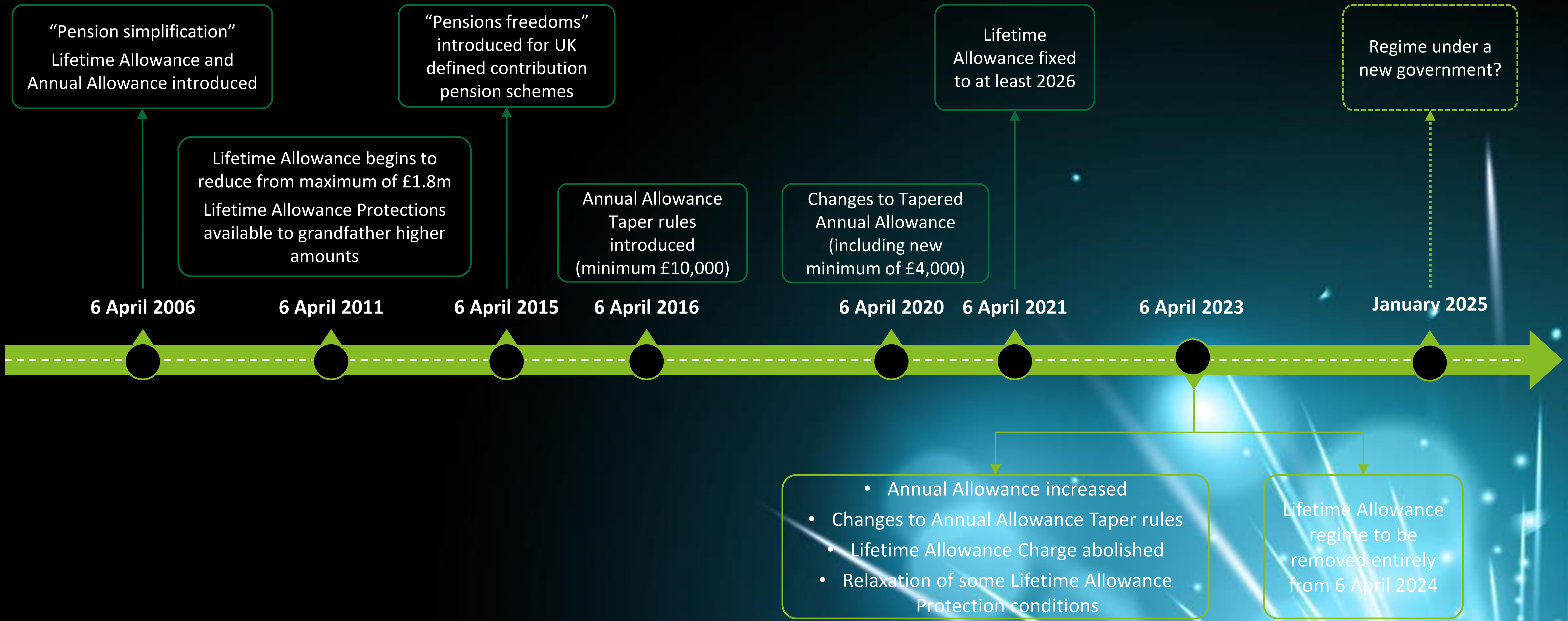
UK Pensions Taxation – Budget 2023 impact

Key changes



UK Pensions Taxation – Budget 2023 impact

Key changes

Annual Allowance

Limit on all pension contributions (accruals for DB schemes) that can receive UK tax relief each year

Annual Allowance was increased from £40,000/year to £60,000/year for 23/24	**Gradually reduced for high earners to a minimum of £10,000/year (previously £4,000/year)**

Lifetime Allowance

Maximum value you can accumulate in a UK registered pension scheme without incurring an additional tax charge on "crystallisation"

Lifetime Allowance was £1,073,100 - any excess was subject to a tax charge of 55% or 25% (e.g. taking retirement benefits)	**From 6 April 2023, the Lifetime Allowance Charge has been 'removed'. The Lifetime Allowance will be abolished from 6 April 2024**

Annual Allowance and Annual Allowance Taper

Summary of changes – effective from 6 April 2023

The Annual Allowance has increased from £40,000 to £60,000

- Available for every tax year in which an associate was a member of a UK registered pension scheme (and some overseas schemes)
- Tax charge on excess contributions over AA (usually a self-assessment matter for associates and/or Partners)

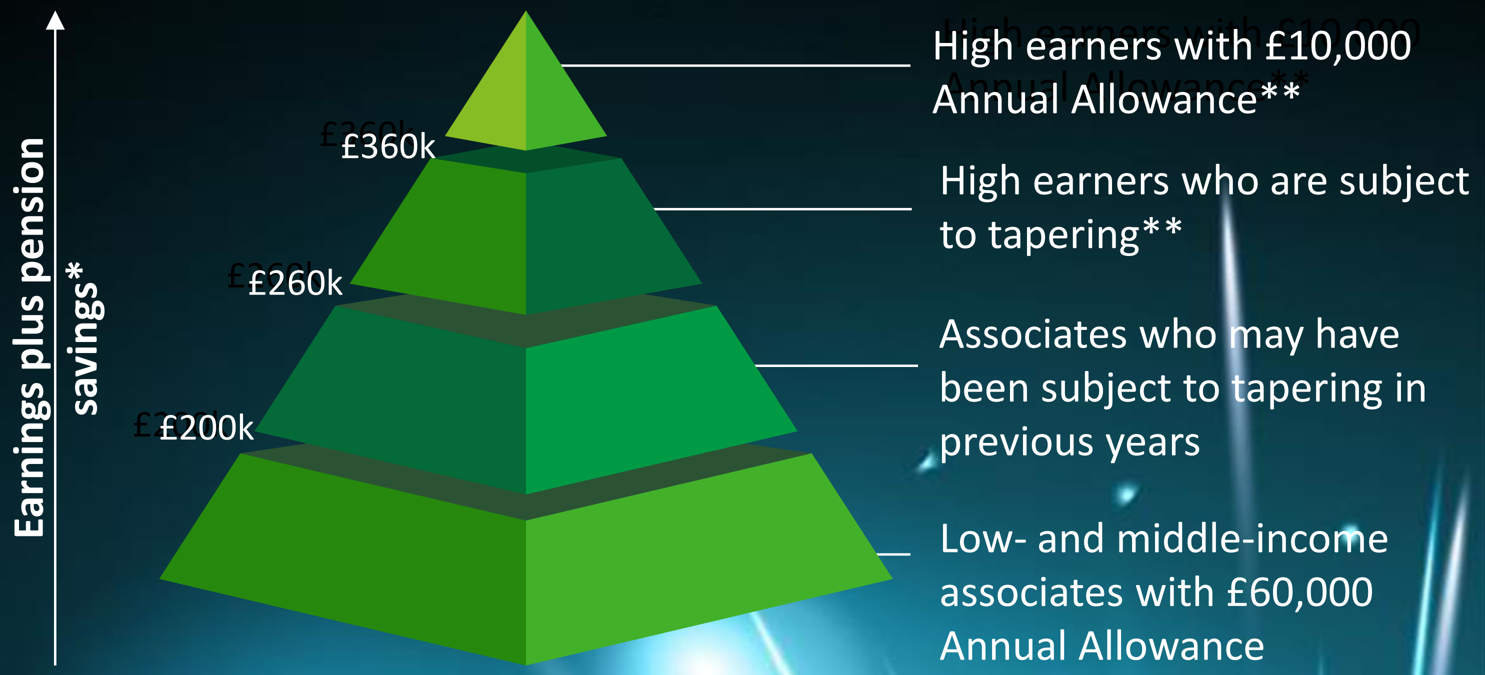
Changes to the Annual Allowance Taper allow more individuals to contribute greater amounts tax-free

- Adjusted Income has increased from **£240,000 to £260,000**
- Minimum tapered Annual Allowance is now **£10,000** (previously £4,000)

Carry forward facility and Money Purchase Annual Allowance

- Three year carry forward facility for unused Annual Allowances
- Reduced Money Purchase Annual Allowance of **£10,000/year** may apply for those who have already started taking pension benefits (increased from £4,000/year)

Summary of Taper rules – assuming Threshold Income exceeds £200,000**



**Estimate for Adjusted Income – the precise calculation is more complex*

***Annual Allowance Taper is switched off if "Threshold Income" is below a certain level (£200,000 for 2022/23 and 2023/24) – this level has remained the same*

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Does your organisation pay a cash alternative to employer pension contributions for high earners?

A

Yes

B

No

C

Don't know

The Lifetime Allowance (LTA)

Summary of changes

What has changed?

- LTA Charge no longer applies from 6 April 2023
- LTA regime abolished from 6 April 2024
- 25% tax-free cash capped at **£268,275** with potentially higher figures for holders of LTA Protections
- Joining / contributing to a new UK registered scheme no longer invalidates Protections if held before 15 March 2023

When does income tax still apply?

- Excess distributions over the LTA will generally be subject to income tax (at marginal rate) when paid
- Replacement of LTA Charge by income tax charge means Double Tax Treaty exemption can apply

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Are you aware of individuals in your organisation who have chosen to restart their pension contributions following the removal of the lifetime allowance charge?

A

Yes

B

No

C

Don't know

What is an excepted group life policy (EGLP)?

Why might you want one?

What are the rules for Death in Service (life assurance) policies?

- From 6 April 2024, death in service lump sums are subject to the new 'lump sum and death benefit allowance' of £1,073,100.
- Any excess over this is subject to income tax at marginal rates.
- In some cases, individuals may have already used up some or all of this allowance through withdrawals from their pensions

What is an excepted group life policy (EGLP)?

- An EGLP is a life assurance policy that is regarded as wholly outside the UK registered pension scheme environment so are not subject to the death benefit allowance described above
- There are various conditions that need to be fulfilled, these include:
  - It must be a group policy (so cover more than one employee initially) and provide the same benefits to all (although can include a cap on the maximum pay out)
  - It must specify an age (maximum 75) over which no benefits will be paid out on death

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Does your organisation have an Excepted Group Life Policy? (EGLP)

A

Yes

B

No

C

Don't know

Possible treatment of non-UK pension schemes

Relevant non-UK pension scheme (RNUKS)

S307 + Overseas Pension Scheme (OPS), as defined

- The employer contributions must be exempt from a benefit in kind charge under s307 ITEPA 2003; AND
- The non-UK scheme must be an OPS, as defined.

Exempt employer contributions

Relief for pension contributions available under a DTA

- A small number of DTAs provide for relief in respect of pension contributions.
- However, even where relief is available, it isn't automatic.

Exempt employer contributions

Deduct employee contributions

Migrant Member Relief (MMR)

- The scheme must be an OPS, as defined, and the scheme administrator must confirm that it will report BCEs to HMRC.
- The individual also needs to meet certain conditions.
- Not seen very often.

Exempt employer contributions

Deduct employee contributions

Disguised remuneration (DR)

- Schemes which are not RUNKS will fall within the disguised remuneration regime.

Tax employer contributions

How do the two regimes compare?

	Relevant non-UK pension scheme (RNUKS)	Disguised remuneration (DR)
On contribution	• Pension tax relief is available (the amount of which depends on the scheme categorisation) • Pension inputs need to be tested against the annual allowance and annual allowance charges may arise	• If employer contributions are earmarked to the employee and there is funding outside the employer's books (e.g. in a separate scheme or trust) they are taxable as paid • Contributions are PAYE income (and potentially subject to NIC) to the extent that they are taxable
On distribution	• Taxed as pension income or pension lump sum (UK treatment will depend on residence status) • Unauthorised payment charge of usually 55% will apply if: – A withdrawal is made before age 55 or the money is transferred to a scheme which is not a UK scheme or QROPS or money is withdrawn in an "unauthorised" form such as a loan – The individual was UK tax resident in the previous 5 or 10 years (depending on when the funds were built up)	• Trailing liability on amounts earned by reference to UK service/UK tax residence and investment growth thereon • Amounts taxed previously may be deductible • PAYE should be applied to any UK taxable figure (so something for the employer to track) • If taxpayer is resident in a treaty country it is likely the treaty will provide exemption. In this case the individual can either: – Complete form DT individual (which will also remove PAYE withholding at source) – Claim a PAYE refund via a tax return

What are we seeing from HMRC on non-UK pension schemes?

Routinely raised as part of employer compliance reviews

What are we seeing?

- HMRC are asking for a copy of the full rules for all overseas pension schemes as part of their reviews
- If lump sums can be withdrawn before normal retirement age in any circumstances HMRC are arguing that exemption under s307 cannot apply

What are the implications?

- If a scheme is determined not to be an RNUKS employer contributions are likely to be taxable (via PAYE) under disguised remuneration (DR) law.
- Further charges under DR will normally apply on distribution, but may be displaced by a treaty if taxpayer is resident in a treaty country with the taxing right on any pension distribution

Conclusions on HMRC activity

- Negotiations re treatment of overseas pension schemes are generally ongoing but remains a clear area of HMRC interest and activity

- If HMRC's arguments were followed to their natural conclusion it is difficult to imagine many contributions to an overseas pension scheme would be exempted by s307

- If the position you are adopting regarding the treatment of any non-UK pension schemes has not been reviewed recently you might wish to consider a review of any previous positions in advance of the 2023/24 tax return reporting season

Questions and discussions

Deloitte.

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