NEW PENSION TAX FRAMEWORK:
WHAT YOU NEED TO KNOW FOR 2024

Discover the key changes to the UK's pension tax framework that came into effect 6 April 2024 and how they impact your retirement planning.

Key changes since 6 April 2024

Since 6 April 2024, the UK has introduced significant changes to its pension tax framework. The familiar Lifetime Allowance (LTA) is replaced by a new structure comprising three distinct allowances: the Lump Sum Allowance (LSA), Lump Sum and Death Benefit Allowance (LSDBA), and Overseas Transfer Allowance (OTA). These changes will impact how pensions are managed and taxed, especially for those nearing retirement.

Understanding the new allowances

Lump Sum Allowance (LSA)

The Lump Sum Allowance (LSA) will define the tax-free amount you can withdraw from your pension as a lump sum.

Unlike the previous Lifetime Allowance, which capped the total value of your pension benefits that could be drawn without facing extra tax charges, the LSA focuses specifically on lump sum withdrawals. This change aims to provide more flexibility and clarity for retirees planning their withdrawals.

Lump Sum and Death Benefit Allowance (LSDBA)

The Lump Sum and Death Benefit Allowance (LSDBA) will cover the tax treatment of lump sums taken as death benefits. This allowance is designed to ensure that death benefits paid from pensions are managed in a tax-efficient manner. The LSDBA will be crucial for estate planning, helping beneficiaries understand the potential tax implications of inherited pension funds.

Overseas Transfer Allowance (OTA)

The Overseas Transfer Allowance (OTA) relates to the tax treatment of transferring pension benefits to overseas pension schemes. This allowance will provide clear guidelines and limits on how much can be transferred abroad without incurring significant tax penalties, supporting those who plan to retire overseas or who have international pension arrangements.

What might these changes mean for you?

The transition to this new framework will have several implications:

1. Flexibility in withdrawals: The new allowances provide more options for how and when you can access your pension funds.
2. Tax efficiency: Understanding these allowances can help you minimise your tax liability.
3. Estate planning: The LSDBA will be particularly important for those planning to leave pension benefits to their heirs.

Adjustments for previous pension withdrawals

If you have already made withdrawals from your pension, the new framework includes provisions to adjust these amounts according to the new allowances. This ensures that previous withdrawals are accounted for under the new rules, preventing any unfair tax advantages or disadvantages.

Transitional certificates and age considerations

During the transition to the new framework, individuals may need to obtain transitional certificates to validate their previous pension benefits and ensure they align with the new allowances. Additionally, age considerations will play a role, particularly for those close to retirement age, as the timing of withdrawals and benefits may need to be reassessed.

Securing Lifetime Allowance Protections

If you have protections under the previous Lifetime Allowance system, it's essential to review these in light of the new changes. Some protections may still be valid, while others might need adjustments to fit the new framework. Seeking professional advice can help navigate these changes effectively.

We're here to help

Feeling overwhelmed by the changes or just need some straightforward guidance?

Professional advice can help you understand how the new allowances apply to your specific situation and optimise your retirement planning. We're equipped to provide the support you need to make informed decisions about your pension and financial future.