Techy Thursday

Autumn Statement

The M&G Wealth Technical team delivered an online seminar on 23 November 2023 covering the impact of the Chancellor's Autumn Statement on your clients' financial planning.

The event questions and answers are below.

Questions and Answers

How are ISA's going to change?

The changes announced are summarised in the following article but the detail on the changes that will be implemented has yet to be released. We will provide analysis once the information is available

https://www.mandg.com/wealth/adviser-services/insights-and-events/technical-insights/autumn-statement

Wasn't there something about ISA age?
The government will harmonise the account opening age for any adult ISAs to 18 from April 2024.

Was there any detail how the self-employed now qualify for state pension contributions, as this was previously Class 2 (wasn't it)?

The abolition of Class 2 NICs for those with profits over £12,570 will not affect their state pension entitlement. Those with profits between £6,725 and £12,570 did not pay Class 2 NICs anyway but were given credit towards state pension. Voluntary Class 2 NICs can still be paid for individuals with profits under £6,725 if they want to build up entitlement to state pension.

With regards to the Pot for Life, is this likely to be more cost effective to the employer?

We suspect it might create administration (and therefore possibly costs) for employers if they have to set up payment instructions for multiple schemes, but we'll only know once there's more detail which is unlikely to be in the short-term.

On the 'pot-for-life' proposal, while good in theory I haven't seen anything to confirm whether employers will be forced to adopt it? I cannot see any employer doing so with the extra admin burden it will involve.

The "pot for life" is at consultation stage so no one is being forced to adopt it at this time. There could be additional administration from the employers point of view and this is one of the points raised in the consultation.

Can you please tell us a bit about the new rules about using individual SIPPs and personal pensions for workplace contributions?

We don't have any concrete information on this as of yet, so we are not sure how SIPPs or other PPs would work within this regime, especially if they are not qualifying schemes for auto enrolment purposes.

If employers have to pay into members individual pensions, is there any information on how employers would handle the logistics of making the payments and handling potentially thousands of direct debits?

Not yet but this one of the issues that's been raised in the consultation feedback so far.

Client with LTA protection of £1.5m reaches NRA in March. no other benefits taken. They have deferred DB paying £80k PA and a SIPP of £1.0m. Can they take DB first in March (no PCLS) and then take £250k PCLS in April?

If the client takes the DB income in March then the £80k per annum income would use £1.6m of LTA, so the client will have used over 100% of the LTA. Based on the policy note then this means that the client will have no allowances in the new regime. They could potentially wait until the new regime begins in which case the will have all of the LSA and LSDBA and the income taken from the DB scheme won't use up any of the new allowances.

Can you confirm if someone has a section 32 with scheme specific lump sum protection they will get a higher % if they wait to vest next year?

If there is no LTA protection in play there is no difference in the amount that will be available tax free this tax year or next. There is an increase in protected TFC using the new formula if there is LTA protection involved based on the draft bill but we will need to see if it makes it through to the final bill.

You mention that 25% of a stand-alone lump sum is going to count towards the lump sum allowance and lump sum death benefit allowance. Yesterday's policy paper only mentions those with PP or EP and says it's the tax-free amount that will count towards them?
Whilst we await the newest draft legislation, the policy note states "Where an individual has a scheme-specific lump sum protection and they take a PCLS, their lump sum allowance will not be reduced by the total tax-free amount of the PCLS. It will be reduced by 25% of the lump sum and arising pension." A standalone lump sum is a form of scheme specific protection, so this should apply to most with those with Enhanced and Primary protection facing differing rules to most.

Policy paper says the following re small lump sums: Following consultation, the government can confirm that the tax-free element of a TCLS, WULS and small lump sums will not be deducted from the new thresholds. However, an individual must have available thresholds to be able to take those lump sums.

That's correct, this will simplify the usage of the new allowances.

IP16 still available to apply for?

Yes, but there is now a deadline of 5 April 2025 for new applications, this is also the case for Fixed Protection 2016 and any other LTA enhancement factors.

Are small pots now irrelevant?

Based on the policy paper small pots will not use any of the new allowances, but you do need to have allowances remaining to receive a small pot payment. They will not be irrelevant as they are required for pension schemes to fix issues that are uncovered or things hard to resolve within the standard pension rules. Taking 3 small pots will allow more tax free money without impacting allowances as it does now.

If someone has a personalised or fixed protection, and likely to also have an IHT issue on their non-pension estate, should we be suggesting they take the TFCash up to their personalised LTA before age 75 to avoid the impact on the later LSA/LSDBA?

This is more a matter of individual advice based on the clients circumstances and the circumstances of their dependants if they are looking to pass the money on. Age 75 will not matter to the individuals LSA or LSDBA as there will no longer be a test on benefits at age 75. However, death benefits from those aged over 75 when they die will still remain taxable in the hands of the beneficiaries as they are under the current regime. For some moving what would be available tax free to the member prior to death to the beneficiary outside the pension system, or by recycling it, could deliver a better outcome than a post 75 death benefit payment.

Client has DB with a LTA valuation of £500k plus a DC pot worth £1m. If next summer he draws DB benefits but takes zero PCLS, how much can he later draw from DC pot tax free?

The scheme pension does not count towards LSA, as income benefits (drawdown/scheme pension/annuity) will not be tested in the new regime. So, up to the full £268,275 would be available. If the DC pot stays at £1m this would give £250,000 TFC.

With crystallised benefits in drawdown - are we clear how this will be treated on death?

Where the member dies after age 75 the benefits will remain taxable at the members marginal rate of tax as per the current process.

For members under 75 on death, and where the benefits are paid as a lump sum and settled within 2 years of the scheme becoming aware of the members death, they will be tested against the LSDBA with any excess taxable at the members marginal rate.

If the member dies pre 75 and the benefits are used to provide beneficiaries income (drawdown/annuity) and the benefits are settled within 2 years then the benefits will not be tested against the new allowance, and will be income tax free for the recipient.

For benefits where the member dies pre-75 but the death benefits are settled outside the two year window, then these will be taxable at the members marginal rate as per usual (bearing in mind that for drawdown they don't actually have to take an income, so it only becomes taxable on what they withdraw.

Are you saying that the 99% 1 % potential beneficiaries is still the best method?

Where the scheme trustees have discretion over who to pay death benefits to, nominations are usually best written as an explanation of the member's wishes as this gives them more information to base their decision on. A 99%/1% nomination does ensure that two beneficiaries are named and have the ability to take their share of the death benefit as income, but remember if the nomination is binding there is no flexibility with this approach.

When you talk about income options with death benefits does this mean an annuity or income payments as drawdown or regular UFPLS?

Income options for death benefits refers to the option the recipient gets on the members death. Beneficiaries Drawdown and Beneficiaries Annuity are the income options.

Has there been any indication on the requirement to get advice from a regulated financial adviser before you can transfer a DB scheme over £30,000 being increased?

Nothing that we have heard.

What, if any has been the impact on pensions and divorce and using the LSA and LSDB?

We have no detail on this at present. But if this is similar to the current regime then the impact should be minimal with a possibility for an enhancement in limited situations, hopefully this will be in any draft legislation released.

if client has £1.5 m, can they take the lump sum as just over £1m and the balance around £500k as an income and pay not tax. if die before age 75? Thank you.

I am assuming that this means for death benefits. Based on the draft legislation from July and the Policy Note from the autumn statement a recipient of death benefits can use the remaining LSDBA to take a lump sum tax free and place any excess into drawdown, and as long as this is done within two years of the scheme becoming aware of the members death any payments from the drawdown will be free of tax.

Was there any update on the pensions dashboard?

No Pension Dashboard update in Autumn Statement documents. There was a report last month -

https://www.pensionsdashboardsprogramme.org.uk/pur/

Looking at Gov announcement... the new PCLS applies to lifetime LS taken above LSA, which won't affect AA taper? Is there also a new LS category for LS on death in excess of LS&DBA? Assume both affect PA trap? Presumably also affect bond CE calcs?

Any amount that is over the new allowances will be taxed just like any other pension income so could impact personal allowances and have knock on impacts in other areas e.g. CE taxation. Excesses on death and the new PCLS excess are however exempt from the taper calculations.

How will already crystallised pensions be taxed? Will these be calculated under the new transitional calculation?

We await to see how drawdown contracts entered into prior to 6 April 2024 will be tested under the new regime. They will reduce allowances available for most but we do not know the death benefit position as of yet.

Should the collective defined contribution scheme be tested by all public sector pensions as the schemes they have are unaffordable to the tax payer and the economy and would help bridge the pension gap and retirement age between the private and public sector?

Good question but not one for us being a political matter not a technical matter! Maybe one to be directed to your MP.

How do CDC schemes fit with the Chancellor's "one pot for life"?

The consultation doesn't detail this, but presumably if an employee has one, this could be the pot that the member chooses for life.

I believe we still do not know how clients who took large amounts of PCLS when the LTA was much higher (and did not use all of their LTA) will be treated in terms of remaining lump sum (it could be lower after 04/24?!)

There will be a new method in calculating the remaining PCLS entitlement for those that have used some, but not all of their entitlement. We await the Autumn Finance Bill 2023 to see how this will be calculated. The only certainty based on the policy note is that those that have used 100% of the LTA will not have any of the new allowances. We expect if you have used 50% of LTA you will lose 50% of LSA as opposed to subtracting the monetary amount of previous tax free amounts from the new allowance.

IHT issues aside, is it prudent for Members over the LTA to fully crystallise pre April 24?

This is more a matter of individual advice based on the clients circumstances and the circumstances of their dependants if they are looking to pass the money on. Age 75 will not matter to the individuals LSA or LSDBA as there will no longer be a test on benefits at age 75. However, death benefits from those aged over 75 when they die will still remain taxable in the hands of the beneficiaries as they are under the current regime. We also need to see how pre April 24 drawdown pots are assessed on death.

The LTA was due to rise in 2025/2026 therefore allowing slightly more tax free cash. With the Max tax free cash being £268250. Is this likely to increase to a rounded figure.

There has been no mention of the LSA increasing in future. There is no provision within the draft rules to do so.

If a client has uncrystallised DB schemes and uncrystallised MP schemes if they crystallise their DB scheme after 6/4/24 can they recycle the income into an MP scheme and build up entitlement to full £268,275 tax free cash (assuming they still have relevant earnings/annual allowance etc)?

Yes, taking DB income only won’t use up LSA and can be recycled into a DC scheme assuming they have relevant earnings and sufficient annual allowance.

What about transfers in from foreign schemes to UK schemes?

We will need to see further detail in the Autumn Finance Bill 2023 to see exactly how these will work. But the government have stated that these will ensure that;

- individuals with an LTA enhancement based on pre-commencement rights to pension credits retain their rights to a higher level of tax-free lump sum, and to higher tax-free parts of SIHLS and lump sum death benefits.

- individuals with any other LTA enhancement factor retain their rights to higher tax-free parts of SIHLS and lump sum death benefits where they became entitled to this enhancement factor before 6 April 2024.

It's worth noting that for these to apply the individuals have to become entitled to apply for a LAEF before 6 April 2024 and apply for this prior to 6 April 2025.

Is there a team at HMRC that does this work - for policymakers - or are they at the Treasury?

Policy decisions come from ministers, it's HMRC's role to implement these.

After IR35 targeted IT and others, why do you think there was no further announcement on tackling the abuse of self-employment rules, where whole workforces (gardening and tree surgery for example) are forced to be self-employed or not be employed at all?

I'm afraid that one would be best asked of your local MP.

Does the reference to a transitional calculation imply that where a BCE has used LTA but not resulted in tax-free cash, further tax-free cash may be available? For example DB scheme taken with no TFC but only used 50% LTA (so not 100%), next year could they have £268,275 TFC from a DC pot?

It has been stated that where an individual has previously used 100% of their LTA, they will have exhausted their allowances and the transitional calculation will not apply. For those with unused LTA then the transitional calculation can apply which will account for benefits taken before 6 April 2024. It is therefore possible that someone who has not had their full PCLS previously will be able to make up their entitlement from other pensions.

If a client exercised a scheme specific lump sum several years ago under current LTA regime and has now withdrawn £267,000 of PCLS from schemes, but still has around 45% of LTA available, under the NEW lump sum rules in effect from 6 April 2024 what would be the client's remaining LS allowance?

We will need to see the detail in the draft legislation to know how the transitional calculation will work in these circumstances. We believe it will be 25% x 45% x £1,073,100.

The main concern regarding LTA for me is the uncertainty regarding a change in government as Labour intend to re-introduce the LTA.

Unfortunately, this is nothing new. There is always the possibility of changes to legislation which might impact a client's financial plans. Labour have stated they have not decided what they are going to do.

There will be less salary sacrifice incentive.

Salary sacrifice will result in a lower NI saving but remains a valuable planning option especially if the employer is going to pass on some of their own NI saving into the member's pension.

When will there be clarification on the transitional calculation for partially crystallised pensions close to the full LTA?

There should hopefully be clarification on the transitional calculation in the Autumn Finance Bill.

Can we still make nominations (for under 75 planning) from now on that are effective?

Yes, but it will need assessed on a case by case basis. There's no one size fits all solution. What's important is understanding the death benefit options available from the scheme and making sure nominations are appropriate and kept up to date.