GODDARD PERRY
CONSULTING

EMPLOYEE BENEFITS IN BLACK + WHITE

The Lifetime Allowance

The Lifetime Allowance is the amount of benefit that can be taken from a registered pension scheme without triggering a tax charge, whether this a lump sum or in the form of an income.

The Lifetime Allowance limit for the tax year 2017/18 is £1 million, this has been steadily decreasing over a number of years.

The current tax charge applied to any benefit amount exceeding the Lifetime Allowance limit is 55 per cent if taken as a lump sum and 25 per cent if taken as an income (which will also be taxed as income at the individual's marginal rate of tax).

The Lifetime Allowance calculation takes into account accumulated benefits under all pensions arrangements including the value of pension benefits promised through Defined Benefit schemes but excluding the State Pension.

Values of pensions promised through Defined Benefit pension schemes are calculated by multiplying the expected annual pension by 20 and adding this to the amount of any tax free cash lump sum.

Individuals can apply or may have already applied to the HMRC for Lifetime Allowance Protection however it is important to note that if protection is in place, any subsequent pension contributions allocated and possibly any benefit accrual under a Defined Benefit scheme may invalidate the protection in place.

As legislation deems **Registered Group Life Schemes** as Pension Schemes, benefits provided under this type of arrangement are also affected by the Lifetime Allowance. This has resulted in benefits provided in the Group Risk sector becoming increasingly exposed following the gradual reduction in the allowance.

Traditional views that Lifetime Allowance issues are only relevant to the wealthy are being replaced with concerns that middle management, with generous Group Life provision and sizeable pension values, may be affected.

Lifetime Allowance is used up cumulatively, this has resulted in many employers now giving consideration of how lump sum death in service benefits are structured and provided so the possibility of a 55 per cent tax charge on any excess is minimised.

One solution is to implement an **Excepted Group Life Scheme.** Benefits under Excepted Schemes unlike Registered Schemes do not count towards the Lifetime Allowance.

There is generally very little difference in cost, and the administration of Excepted Schemes is only marginally more complex for insurers. This makes Excepted Schemes a viable option for Employers who are concerned that some employees could be affected by the tax charge.

The complication with Excepted Schemes is that there is a periodic charge at the 10 year anniversary and an exit charge may theoretically apply.

- A periodic charge is an inheritance tax charge that applies if a member has died before the 10 year anniversary date but the benefit has not been paid out by the anniversary date.

- The exit charge is also an inheritance tax charge which is based on the time elapsed at the point the benefit is paid out.

There is also a concern that HMRC may in time view Excepted Schemes as a form of tax avoidance, however, HMRC have made no comment on this.

Even with concerns as outlined above the number of Excepted Schemes has risen significantly, many insurers believe this is because employers feel the advantages of reducing the potential charges resulting from exceeding the Lifetime Allowance outweigh the potential theoretical charges that may occur.

If you would like any more information or would like to discuss please contact your usual Goddard Perry Consultant.

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