PENSIONS AND LIFETIME SAVINGS ASSOCIATION

12 September 2023

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HMRC Pension Policy Team
100 Parliament Street
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RE: ABOLITION OF THE LIFETIME ALLOWANCE CONSULTATION

Pension saving is a lifetime's endeavour. For people to have confidence to put money away, year after year, they need to be sure that the tax treatment of pensions will not change radically. For example, over the last decade the Lifetime Allowance (LTA) has varied between a high of £1.8 million and a low of around £1 million. The draft legislation to which this consultation pertains makes clear that the LTA will soon be permanently abolished. This will hopefully provide long-term stability for savers with larger pension savings.

Whilst we believe the draft legislation will succeed with its intended goal of removing the LTA, we are concerned about the following:

- The introduction of a new form of inherited pension wealth taxation without proper consultation;
- Lack of detail in the consultation about disclosure requirements in light of abolition of the LTA, and;
- The timeframe for enacting the new legislation.

When the abolition of the LTA was first announced at the Spring Budget of 2023, the Treasury moved at speed to enact a stop-gap measure which removed the upfront flat-rate charge associated with the LTA. This was done without causing widespread issues. As this short-term measure worked initially, some of our members support its extension for a further year for implementation of this legislation. This would allow schemes to undertake the necessary administrative work, whilst also giving Government space to properly assess the impact of the changes proposed in this consultation. This approach could be beneficial to members, schemes and the Government.

The PLSA sits on HMRC's Pension Stakeholder Forum and we have welcomed the opportunity to discuss the abolition of the LTA in this setting. We would support continued engagement with the industry in forums such as this.

Lack of proper consultation

The draft legislation intends to deliver the changes required to abolish the LTA and clarify the tax treatment of pension savings. It clarifies how lump sums and lump sum death benefits will be taxed in its absence, the position of individuals with LTA protections, lump sum protections or LTA enhancement factors and the function of BCEs. However, it seems it has created a new issue. At present, DC pension savings, regardless of size, can be passed onto a loved one without incurring income tax if the individual passes away before the age of 75. It appears that the Treasury are seeking to change this so that any unused amounts being passed on exceeding the same level as the LTA - £1,073,100 - would be subject to taxation at the beneficiaries' marginal rate. Whilst our members are fully supportive of pensions being used properly and not as a loophole for tax avoidance, our fear is that the proposed changes, as currently incarnated, would introduce a new form of taxation for some inheriting pension savings, and that this might be introduced without

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sufficient consultation. We would ask that the Treasury publishes a specific consultation on this, with analysis included, so industry can appropriately feedback.
Lack of detail on disclosure requirements

Schemes are already subject to a host of different disclosure requirements (non-exhaustive list as follows: TNFD and TCFD frameworks, Occupational Pension Disclosure Regulations, forthcoming IAS19 disclosure, Chair's statements and TPR Single Code - ORA and ESOG). If the Government is going to press on and implement the new pension taxation policy without further consultation, it is important that it sets out what the disclosure requirements/ regime may be associated as soon as possible. The PLSA would support a swift resolution to this issue as existing regulation requires schemes to contact their DC members as they approach retirement. Whilst the exact amount of time before the retirement date a scheme contacts a member varies, they are obligated to do so at least four months in advance of the date. Given that it is the Government's intent to have this legislation in effect on, or from, 6 April 2024, we are worried that unless the final legislation is released as soon as possible, schemes may be faced with an insufficient amount of time to adapt to take account of new tax treatments in disclosures to members.

Timeframe for enacting this legislation

In addition to the staging point above, the PLSA feels that it is vital HMRC engages with schemes on this on a frequent basis in the period leading up to April 2024. Schemes will be required to make administrative changes in order to support the implementation of this new regime which would undoubtedly come with some administrative snagging issues. Some schemes may struggle to implement all of the necessary changes due to timing issues. This is a clear risk and the consultation does not explain what would happen in the eventuality that savers incur tax penalties as a result of delays.

A significant contributing factor to the uncertainty as to whether schemes will be able to adapt in time is that schemes are already undertaking a range of projects, including but not limited to, the Pensions Dashboards, McCloud Remedies and GMP equalisation. The consultation does not include any recognition of these competing priorities, which is a worry for schemes who wish to see greater recognition and consideration from Government regarding the industry's ability to deliver all ongoing and upcoming legislative changes.

Yours sincerely

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Director of Policy & Advocacy