ASSOCIATION OF CONSULTING ACTUARIES

6 April 2023

Budget 2023 – death benefits update from HMRC

Following recent concerns over a possible change of process that was described in Lifetime allowance guidance newsletter — March 2023 - GOV.UK (www.gov.uk) , HMRC has asked that we (and other stakeholders they have contacted) share the following message from them, to get the news of change out as quickly as possible.

> "From HMRC on 5 April 2023:
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> As you will be aware, on 15 March the Chancellor announced that he would introduce legislation to ensure that nobody faces a lifetime allowance (LTA) charge **from 6 April 2023**. As a result, where currently subject to a 55% tax charge above the LTA, the following payments will now be taxed at the recipient's marginal rate of income tax:
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> - LTA excess lump sum,
> - Serious ill-health lump sum (SIHLS),
> - Defined benefits lump sum death benefit (DBLSDB), and
> - Uncrystallised funds lump sum death benefit (UFLSDB).
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> The LTA guidance newsletter, published on 27 March, provided further guidance. It set out that where schemes identify one of the above lump sums, normal PAYE rules would apply to these payments and that they would be treated as pension income.
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> It also highlighted that the process for dealing with DBLSDBs and UFLSDBs would change. Schemes were advised that they would need to first contact the Legal Personal Representative (LPR) of the deceased member to find out how much available LTA the member has, telling them the type and amount of the benefit to be paid. This would enable schemes to determine whether the deceased member's LTA had been used up and whether any of the benefit should be subject to tax at the beneficiaries' marginal rate.
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> Many representatives from across the industry have since raised concerns around this new process for the taxation of death benefits. These concerns were discussed in depth at the first LTA Working Group yesterday.
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> A strong preference had been expressed for maintenance of the current system. Under this process, if the member's LPR identifies a chargeable amount after payment of a DBLSDB or UFLSDB, they must report this to HMRC. It is HMRC that then assesses the tax due.
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> In light of concerns raised, we agreed to consider alternative options.

We are writing to confirm, therefore, that schemes may continue to use the current process for taxation of the DBLSDB and UFLSDB. Based on information provided by LPRs, HMRC will then raise marginal rate taxation (as opposed to an LTA charge) on the applicable portion of these payments. We would appreciate stakeholders help in communicating that HMRC will approach affected beneficiaries following the end of the tax year in line with the existing process but with marginal rate charge instead of lifetime allowance charge.

This process will continue until we develop a longer-term position for the full abolition of the LTA from 6 April 2024.

Further information will continue to be provided in LTA specific Pension Scheme Newsletters."