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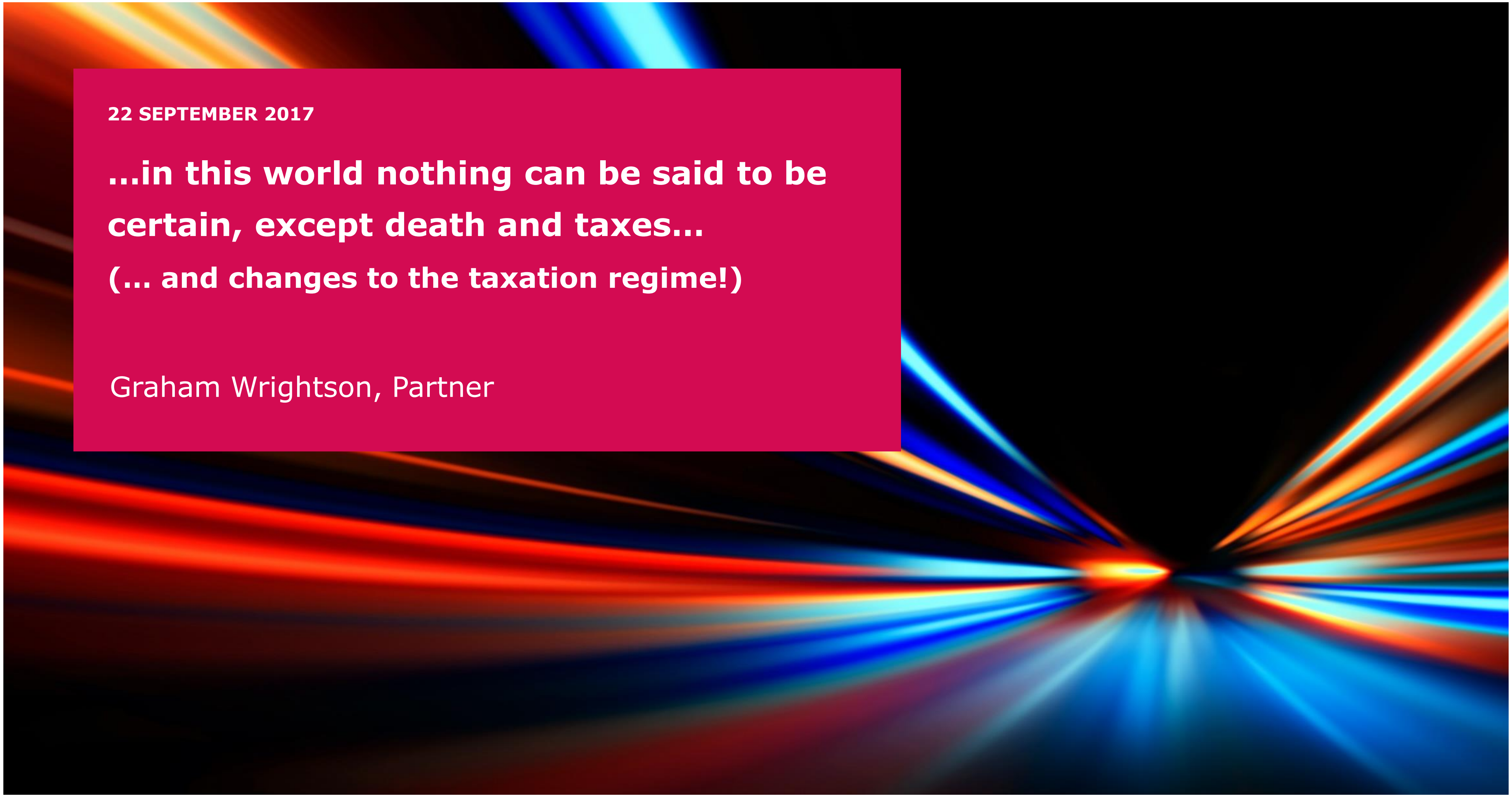

22 SEPTEMBER 2017

…in this world nothing can be said to be certain, except death and taxes…

(… and changes to the taxation regime!)

Graham Wrightson, Partner

Lifetime Allowance (LTA)

- LTA launched at £1.5m (2006/07) – gradually increased to £1.8m (2010)
- Now at all time low of £1m
- Excess taxed at 55% (if paid as lump sum)

Benefits counting towards the LTA -

- Pension benefits (GPP, Stakeholder, occupational DB and DC etc.)
- Registered lump sum death in service benefits

Benefits not counting towards the LTA -

- Dependants' death in service pensions
- Relevant Life Policies

Recent LTA Protection regimes

Year	LTA Protection Regime	What the regime protects
2012	Fixed Protection 2012	Preserves LTA of £1.8m
2014	Fixed Protection 2014	Preserves LTA of £1.5m
2014	Individual Protection 2014	Preserves LTA of 1.5m
2016	Fixed Protection 2016	Preserves LTA of £1.25m
2016	Individual Protection 2016	Preserves LTA of £1.25m

Issues	Comments
Loss of LTA protection	- On joining a new registered scheme - On pension benefit accrual
Employees' responsibility	Obtain Financial advice on LTA protection (They should be fully aware of issues / constraints)

Example

Example situation	Benefits counting towards LTA	
Salary £180,000	**On retirement**	**On death**
DB pension £30,000	£600,000 (20 x pension)	not applicable
Spouses DISP £20,000	not applicable	not applicable
DC Fund £350,000	£350,000	£350,000
GLA 8 x salary	not applicable	£1,440,000
Total registered benefits	**£950,000**	**£1,790,000**

LTA Position	LTA Tax charge	LTA Tax charge
With FP 2016 – LTA £1.25m	Nil	£159,500
No LTA protection – LTA £1m	Nil	£434,500

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Relevant Life Policies

- “Non-registered” life cover
- Death benefit does not count towards the LTA
- Generically referred to as Excepted Group Life Policies (EGLPs), with policies covering 2+ employees
- Key conditions:
    - Death under age 75
    - Same benefit formula
    - No surrender value
    - Paid to individuals or charities
    - Group membership criterion
    - “Tax avoidance” must not be a “main purpose”
- Usually established under discretionary trust

Tax Treatment Compared

Issue	Registered	EGLPs	EFRBS
Income tax on lump sum death benefit?	No	No	Yes (45% charge on whole benefit)
Income tax and NICs on premium?	No	No	Yes
Do benefits count towards LTA?	Yes (55% charge on excess)	No	No
IHT chargeable?	Usually, no	Potentially	Potentially
HMRC requirements	HMRC registration	None, as such	HMRC notifications

The Tax Avoidance Conundrum

- Tax avoidance condition is widely cast
- No Guidance from HMRC, statute or case law
- A scale of risk
- Strategies to mitigate risk

EGLPs are inherently tax advantageous

Absurdity of an unusable tax regime

Structuring

EGLPs should be accommodated in a trust

Is the trust appropriate?

- IHT charge mitigation
- Amendment and termination provisions
- Trustee protection
- Double-cover prevention

A Trust to administer

Not quite “set and forget”

Plan needed to manage any claims

Managing the policy and any changes

Changes in legislation or HMRC approach

Helping your clients

Employee engagement

- Have your clients received employee queries on LTA /LTA protection?
- Do your clients communicate to employees about these issues?
- Do your clients' employees need to access advice?

Clients' current arrangements

- Do your clients already have employees with LTA protection?
- Are clients' employees requesting non-registered life cover?
- Would LTA issues be a potential recruitment bar for your clients?

Benefits

- Establish a life assurance scheme using a Relevant Life Policy (EGLPs / SLPs)?
- Seek legal advice on trust and tax issues before establishing the scheme
- Use a generic insurer or bespoke trust to establish the scheme?

Contact

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