LIFETIME ALLOWANCE TAX CHARGE

The lifetime allowance tax charge is a tax charge that applies when a crystallisation event takes place **and** the crystallised value is more than the individual's available lifetime allowance.

The amount above the individual's available lifetime allowance at that point (known as the chargeable amount) is subject to the charge unless the individual has LTA protection.

The rate of tax charged depends on the type of benefit provided by the chargeable amount.

If it's paid as a lump sum (known as a lifetime allowance excess lump sum), this is subject to an immediate lifetime allowance tax charge of 55% before it's paid out.

It's only possible to pay a lifetime allowance excess lump sum before age 75, however it's not a given that a particular scheme will allow this option.

If it's used to provide a pension, an immediate lifetime allowance tax charge of 25% applies. The pension will also be subject to income tax at the individual's appropriate rate. The combined effect of a 25% lifetime allowance tax charge and income tax at 40% on the pension income is an overall tax charge of 55%, though of course, this would be lower or higher if the income gets taxed at 20% or 45%.

Who is liable for paying the lifetime allowance tax charge?

This depends on whether the charge arises during the member's lifetime or after their death.

The lifetime allowance tax charge applies regardless of whether those liable to it are resident, ordinarily resident or domiciled in the UK.

During the member's lifetime

When benefits are crystallised, the member and the scheme administrator are 'jointly and severally liable' for any lifetime allowance charge.

The scheme administrator must pay and account for any lifetime allowance tax charge that arises under the scheme.

The member is responsible for accounting for their own liability to the charge on their self-assessment tax return. The member can claim credit on their self-assessment return for any tax paid by the scheme administrator, who should provide details of the rate of charge due and the amount paid, to help the member do this. If the scheme administrator has paid the correct amount of tax due, there should be no liability for the member.

Following the death of the member

If a lifetime allowance tax charge arises on the death of the member, the liability to pay the charge falls solely on the recipient(s).

The scheme administrator should pay any benefits in full, without regard to any lifetime allowance tax charge that may potentially be due.