Adobe

UK Life Insurance: Does this count towards my lifetime allowance?

Where benefits exceed the LSA or the LSDBA, tax may be payable on the excess. Typically, excess lump sum payments are subject to income tax at the recipient's marginal rate, while amounts taken as income are taxed as earned income. Tax is only applied to the portion exceeding the relevant allowance (LSA for lump sums taken in life, LSDBA for lump sums and death benefits).

Example: An employee passes away with a pension fund of £800,000 and a life assurance lump sum of £600,000. The total of £1,400,000 is due as a lump sum payment to their spouse or partner. Under the current rules, the Lump Sum and Death Benefit Allowance (LSDBA) of £1,073,100 applies. The excess of £326,900 (£1,400,000 minus £1,073,100) is subject to income tax at the recipient's marginal rate.

Any members whose lump sum and pension benefits are likely to exceed the Lump Sum Allowance (LSA) or the Lump Sum and Death Benefit Allowance (LSDBA) should be aware of the potential tax implications and factor this into their estate planning decisions. You may wish to seek external financial advice.

Employees also insured for the £250,000 lump sum in place of the death in service pension will have this cover provided via a non-registered arrangement. Please note that under current legislation benefits provided through a non-registered arrangement are not subject to the LSDBA rules applying to Registered arrangements.

Please note that Adobe are unable to provide tax planning or financial advice, for this you should seek independent legal/financial advice, the above is provided based on current understanding and interpretation of current legislation.