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60-second summary

Spring Budget, 2023

The Chancellor of the Exchequer, Jeremy Hunt, spelled out his Spring Budget plans on 15 March 2023. This time, rumours of significant pensions-tax changes proved to be true:

- the annual allowance will increase to £60,000 (and the money purchase annual allowance will rise to £10,000) from 6 April 2023, whilst
- the lifetime allowance will be abolished altogether.

Annual allowance

The annual allowance (AA), which has been stuck at £40,000 since 2014/15 (having reached the heady heights of £255k in 2010/11), will increase to £60,000 from 6 April 2023. Pension scheme members can continue to carry forward unused AA from the three previous tax years. At the same time, the money purchase annual allowance (MPAA), which limits further contributions for those who have flexibly accessed their defined contributions (DC) funds, and has been set at £4,000 since 2017/18, will return to £10,000 (its level from 2015/16 until 2016/17).

There is some good news, too, for '*high-income individuals*', who currently suffer a tapered reduction to their AAs, pruning them by £1 for every £2 of '*adjusted income*' over £240,000, until it bottoms out at £4,000 for those earning £312,000. The taper applies, at present, to those who have an adjusted income for the tax year in excess of £240,000, and a threshold income of more than £200,000.[1] Under the Chancellor's plans, from 6 April 2023, the level that adjusted income must reach for a member to be affected by the taper will rise from £240,000 to £260,000, and the minimum tapered AA will increase to £10,000. This should mean that the taper will reduce the AA to £10,000 for those with an adjusted income of over £360,000.

The Government has also said that members of the public-sector pension schemes will have their open (CARE) and closed (final salary) schemes linked for the purposes of calculating AA charges, offsetting any negative real growth within the legacy schemes.

Lifetime allowance

The lifetime allowance (LTA) reached £1.8m in 2010/11, but was subject to successive cuts from 2012/13 onward. It has been fixed at £1,073,100 since 2020/21, and was set to stay at that level until 2025/26. Now, however, the Chancellor has announced that the LTA charge will be removed from 6 April 2023 (so that people will not need to report and pay the tax), and that the allowance will be abolished altogether from 6 April 2024.

[1] In the most straightforward cases, threshold income is taxable income minus relievable pension contributions, although salary sacrifice agreements made after 8 July 2015 are penalized. Adjusted income is essentially threshold income plus the member's total pension input amount for AA purposes.

In the meantime, the taxation of lifetime allowance excess lump sums (LAELS), serious ill-health lump sums (SIHLS), defined benefits lump sum death benefits (DBLSDB) and uncrystallised funds lump sum death benefits (UFLSDB) will be changed. Currently, SIHLS, DBLSDB, and UFLSDB are tax free up to the LTA for those under 75, but any excess over the member's available LTA is taxed at 55%. The same tax rate applies to LAELS. From 6 April 2023, those lump sums (or parts thereof) in excess of the member's LTA will be taxed instead at the recipient's marginal rate.

The trade-off for all this largesse with the allowances is, however, that the maximum pension commencement lump sum (PCLS) for members without transitional protections will be fixed at its current level of £268,275 (25% of £1,073,100).

In *Pension Schemes Newsletter 148*, His Majesty's Revenue and Customs says that scheme administrators will still, for now, need to perform lifetime allowance checks, and issue statements to members, when benefits are crystallized. It also announces that members with enhanced protection, or fixed protection applied for before 15 March 2023, will from 6 April 2023 be able to accrue benefits, join new arrangements, and transfer without losing their protection or their entitlements to PCLS of more than £268,275.

Other pensions-related announcements

The Government has invited comments on its LIFTS (long-term investment for technology and science) initiative, which aims to foster the creation of new vehicles for investment in science and technology companies. It hopes to attract investment from defined contribution pension schemes.

The main Budget document also says that a forthcoming consultation exercise will propose an acceleration in investment pooling by Local Government Pension Scheme (LGPS) funds. This will entail the transfer of all listed assets into the pools by March 2025. To benefit from economies of scale, it may mean consolidation to create a smaller number of pools with assets over £50 billion. The Government will also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital.

We are pleased to see the Government abolishing the lifetime allowance and increasing the annual allowances to more sensible levels for most people. However, it remains to be seen whether this will achieve the Chancellor's aim of encouraging older professionals to stay in work or return to the workplace. Changes to general taxation would probably be more effective: the freezing of the tax thresholds until 2026 is a real disincentive to wealthy over-50s working on; and the removal of lifetime allowance charges might even tempt some of the lucky few toward early retirement.

The maintenance of the AA taper will tarnish the abolition of the LTA for the very highest earners (those with adjusted incomes over £360,000). The freezing of the maximum tax-free cash lump sum at £268,275 will also be unwelcome, especially if it signals the beginning of the end for this much-loved benefit.

Overall, the changes should go some way toward simplifying pensions taxation for many. In the short-term, scheme providers and their members will have some work to do to digest the changes and get to grips with the nuances of a new set of rules.

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