UK BUDGET UPDATE

March 2023

In what was initially billed as a budget of few surprises, the spring Budget of 2023 managed to provide one unexpected change to UK Pension schemes, on top of other changes and measures already announced in the November update.

See below for the key changes announced in relation to personal taxation rates.

LIFETIME ALLOWANCE (LTA)

UK Chancellor Jeremy Hunt announced that the LTA for pensions will be abolished from the 2023/24 tax year. This move has significant implications for savers and retirees.

The LTA is the maximum amount of money that an individual can save into a pension without facing tax penalties. Currently, the LTA stands at £1,073,100. However, from 2023/24, there will be no limit on how much you can save into a pension. This is good news for those who have already exceeded the LTA, as they will no longer face tax penalties on future contributions.

However, the maximum tax-free cash that can be drawn will remain at £268,275, which is 25% of the current £1,073,100 LTA. This means that, for example, if you have a pension valued at £2 million with no LTA protections in place, you could not receive £500,000 tax-free cash.

For funds that would previously have been in excess of the LTA, they will now simply be taxed at your marginal rate.

If you have Fixed Protection from 2012, 2014, or 2016, this protection will remain in place. For example, fixed protection 2012 protects a £1.8 million lifetime allowance, yielding £450,000 tax-free cash. However, if you plan to contribute to a pension in the future, the protection will be lost. Therefore, it's important to review whether or not you should consider taking tax-free cash before contributing to a pension.

THE FUTURE OF THE LIFETIME ALLOWANCE

The Labour party has stated that they would abolish the abolishment if they came into power. While there is some support for the LTA abolishment in the Tory party, it remains to be seen what will happen if there is a change of government. Uncertainty around this issue will likely cause concern for those nearing retirement as the election approaches.

ANNUAL ALLOWANCE CHANGES

It's essential to consider your individual situation when it comes to pensions and tax planning. With the LTA abolished, other allowances become more important. For example, the annual allowance, which is the maximum amount that can be saved into a pension each year without facing tax penalties, is increasing from £40,000 to £60,000 on 6 April 2023.

MONEY PURCHASE ANNUAL ALLOWANCE

If you access any taxable money from your pension plan, such as through a drawdown arrangement or by cashing in your pension savings, your money purchase annual allowance (MPAA) will be reduced. The MPAA will typically reduce from £40,000 to £4,000. However, from the new tax year, the MPAA will be increased to £10,000, making it easier to keep working and saving once you've taken money from your savings.

TAPERED ANNUAL ALLOWANCE

Higher earners might be impacted by the tapered annual allowance, which gradually reduces the amount that can be saved into a pension each year based on earnings. The lower limit of this allowance will be increased from £4,000 to £10,000 in the new tax year. This is a complex area and you should consult with a pension specialist to confirm your position as regards to the tapered annual allowance.

CAPITAL GAINS TAX

In addition to the changes outlined in the article, there are also upcoming changes to the Capital Gains Tax (CGT) and Dividend Allowance. From the 2023/24 tax year, the CGT allowance will reduce from £12,300 to £6,000 p.a. Then, in the 2024/25 tax year, it will reduce again to £3,000 p.a.

DIVIDENDS TAX

Similarly, the Dividend Allowance, which is the amount of tax-free dividends that can be received each year, will also be reduced from £2,000 per annum to £1,000 per annum from the 2023/24 tax year. This means that any dividends received above this threshold will be subject to tax.

ADDITIONAL RATE BAND

The income tax additional rate threshold ("ART"), above which the 45% rate will apply, will be lowered from £150,000 to £125,140. The ART for non-savings and non-dividend income will apply to taxpayers in England, Wales, and Northern Ireland. The ART for savings and dividend income will apply UK-wide.

CONCLUSION

The changes to the LTA, annual allowance, and MPAA will have significant implications for pension savers and retirees.

It's important to consider these changes alongside other tax implications, such as the reductions to the CGT, additional rate band and Dividend Allowance, and review your portfolios and tax planning strategies to ensure you are maximising your tax efficiency across all of your portfolio. Consulting with a tax professional or financial adviser may be helpful in navigating these changes and making the most of your allowances.

If you have any questions or concerns about any points raised in light of these changes, speak with a Bentley Reid wealth manager who can help ensure that you are making the most of your pension and retirement planning opportunities.