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The Spring Statement and the proposed pension changes

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Further to the Chancellor's throwaway line that the lifetime allowance was to be abolished, additional information has been released by the government, which does perhaps clarify some of the initial questions that have been raised around how they could impact people.

The lifetime allowance

From 6 April 2023 the lifetime allowance (LTA) charge is to be removed through legislation introduced in the spring 2023 Finance Bill, with the LTA being fully abolished from the 2024/25 tax year in a future Finance Bill.

This change still means the LTA remains in place from 6 April 2023, and it's just the LTA charge itself that is being removed in the 2023/24 tax year. The pension scheme administrator will still need to continue to carry out lifetime allowance checks when paying benefits (by way of an example, they'll have to continue to assess whether an individual has available lifetime allowance) and to issue benefit crystallisation event (BCE) statements.

Treatment of pension lump sums

With the proposed changes to the LTA, the maximum pension commencement lump sum (PCLS) an individual, who holds no protected rights to a higher PCLS, can take, will be frozen at £268,275, i.e., 25% of the current standard lifetime allowance of £1,073,100. Note that a particular scheme may not allow the equivalent of 25% to be taken as a PCLS.

The LTA is of relevance for several other lump sums, and the individual must have remaining LTA if the following are to be authorised payments: serious ill-health lump sum; uncrystallised funds pension lump sum (UFPLS); and winding up lump sum.

Certain death benefits paid from uncrystallised rights are tested against the deceased individual's LTA. The death benefit lump sums are a defined benefits lump sum death benefit and uncrystallised funds lump sum death benefit.

In respect of the lump sums below, for those individuals under the age of 75, currently they're subject to an LTA charge at 55% on any excess over the LTA. From 6 April 2023, any excess will be taxed differently.

- Serious ill-health lump sum
- Uncrystallised funds lump sum death benefit
- Defined benefits lump sum death benefit
- Lifetime allowance excess lump sum

Although it's not entirely clear from what's been published so far, I presume that because the LTA will still exist in 2023/24 but no LTA charge will be applied, then any excess over the LTA, rather than be taxed at the LTA tax charge rate of 55% for these lump sums, will, instead, be taxed at the recipient's income tax marginal rate.

We'll have to await the relevant legislation as to how these lump sums will be treated from the 2024/25 tax year.

LTA protection

Individuals who hold valid enhanced protection or any of the variants of fixed protection, and, the protection was applied for before 15 March 2023, with a certificate or reference number subsequently issued, from 6 April 2023 they'll be allowed to accrue new pension benefits, join new arrangements or transfer without losing their protection. As this will apply from 6 April 2023, advisers should be mindful to ensure their clients take no action before then, as to do so would result in the loss of the relevant protection.

It should also be noted that if these individuals were to take the opportunity to recommence funding their pension(s), after 5 April 2023, they'll still retain their entitlement to a higher PCLS.

Annual allowance

From 6 April 2023 the annual allowance (AA) will increase from £40,000 to £60,000.

This increase means the adjusted income limit will increase from £240,000 to £260,000. There's no change to the threshold income limit of £200,000.

For individuals with threshold income in excess of £200,000 and adjusted income over £260,000, their AA for the tax year will be reduced. For every £2 over the £260,000 adjusted income limit, their AA for the 2023/24 tax year will reduce by £1. The minimum reduced AA they can have from 2023/24 onwards will be £10,000. This is an increase on the current minimum level of £4,000.

For the tax year 2023/24 onwards, the money purchase annual allowance (MPAA) limit will also increase from £4,000 to £10,000. The MPAA is triggered when benefits are first flexibly accessed from a money purchase arrangement and limits any future pension savings into money purchase arrangements.

Some of the more common triggers are:

- An income payment from a flexi access drawdown (FAD) fund.
- Income payment exceeding the annual maximum applicable under capped drawdown.
- Payment of an UFPLS.

It's perhaps worth noting that the following don't trigger the MPAA.

- Payment from a beneficiary's FAD
- Payment from a disqualifying pension credit FAD
- Taking benefits from a defined benefit arrangement

Public service pension schemes

It was announced that legislation will be introduced later this year to ensure different Public Service Pension Schemes (PSPS) for each public service workforce are treated as one arrangement for the purposes of calculating any AA tax charge for the tax year 2023/24 onwards.

From my reading, this seems to imply that when calculating the pension input amount (PIA) for one of the elements, for example the legacy final salary scheme, if this results in a negative amount, then this negative amount can be offset against any positive PIA in the newer Career Average Revalued Earnings (CARE) scheme. As things presently stand, any negative PIA is treated as simply a zero amount.

Low earners and net pay arrangements

There are two main ways in which tax relief is given for pensions. For low earners, in schemes using net pay arrangements, they have less take-home pay than if they were saving into a relief at source scheme.

It's been announced that legislation will be introduced in the Finance Bill 2023 that going forward from 2024/25 tax year, HMRC will make a top-up payment to low earners in net pay arrangements. The top-up payments will be made directly to eligible individuals.

HMRC will determine eligibility based on whether individuals have contributed to such a scheme and if their total taxable income is below the personal allowance in the particular tax year. The payments will be made as soon as possible after the tax year in which the contribution is paid.

Comment

The premise behind the changes is that it supports the Government's efforts to encourage inactive individuals to return to work, particularly those aged 50 and above. It further advocates that it removes incentives to reduce hours or leave the labour market due to pension tax limits, with a focus on NHS doctors, and other senior public sector workers. It's perhaps interesting, that in a parliamentary question in October 2022, the junior health minister confirmed that only around 100 hospital doctors had taken voluntary early retirement in 2021/22.

Written questions and answers – Written questions, answers and statements – UK Parliament

In effect, from 6 April 2023 the LTA will become irrelevant, other than for calculating the amount of PCLS an individual is entitled to, whether that amount is based on £268,275, or the appropriate amount for someone who holds a valid LTA or PCLS protection.

The increase in the AA will be welcomed by some individuals, for example, those that will be paying additional rate tax on their income for the first time once the additional rate threshold falls from £150,000 to £125,140 in 2023/24. Apart from the ability to mitigate the 45% rate (different rates are applicable in Scotland), the increase in the AA also expands the band of taxable income where the individual can claw back all, or part, of their personal allowance through personal contributions to their pension. This opportunity will also open up for those that have any of the forms of Fixed Protection, or Enhanced Protection, as they'll be able to make contributions from 6 April 2023 without impacting on their protected PCLS.

From questions being asked of our Technical Support Unit, there's been a fair amount of speculation as to how the changes will impact on clients. Until we get to view the Finance Bill, it would be remiss to comment on the obvious gaps that exist in the information that is currently available.

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