# Major pension changes introduced by Spring Budget 2023

The 2023 Spring Budget produced some of the biggest, most wide-ranging changes to pensions legislation since the "Pension Freedom" reforms of 2014. The statement was a surprise to say the least.

The main announcements were:

- The abolition of the lifetime allowance
- A significant increase in the annual allowance
- Increases to the money-purchase annual allowance and the tapered annual allowance

Of these, by far the most noteworthy in terms of the opportunities it presents is the abolition of the lifetime allowance, which is the maximum sum an individual can build up in pension funds without paying additional tax charges.

Jeremy Hunt's intention with this policy is to remove one of the main financial reasons for the early retirement of high-earning doctors and consultants in the NHS (although whether this will prove effective remains to be seen).

This abruptly reverses the direction of pensions policy over the past 11 years, which has focused on reducing the lifetime allowance from its high point of £1.8m in 2012 to just £1m by 2016 (it is presently £1,073,100).

For the most part this is welcome news. Although clearly only affecting those with large pension funds, the lifetime allowance was beginning to disincentivise high-earning senior employees across the public sector from remaining in the workforce owing to the excessive tax charges on their pensions.

It was also leading to some arguably irrational behaviours, such as investing in very cautious assets to prevent a pension fund from exceeding the LTA due to high growth rates, or saving into less tax-advantaged and higher-risk savings vehicles such as Venture Capital Trusts to avoid breaching the lifetime limit.

With the LTA now removed, this clearly presents the opportunity to accumulate larger pension funds and benefit to a greater extent from the considerable income tax, capital gains tax and inheritance tax benefits which pension funds offer.

Given that many (but not all!) of those with lifetime allowance protection can now resume saving into a pension (without a tax charge at higher rates), pension saving strategies are likely to be back on the financial advice agenda for clients with larger pension funds.

It is essential to consider the opportunities and risks in light of a person's circumstances and objectives. As always, advice should be truly bespoke – good advice is never "one size fits all".

One downside introduced by this legislation is a cap on the maximum amount of tax-free cash which can be withdrawn from pension funds. Presently limited to 25% of an individual's "remaining lifetime allowance" and tested each time pension benefits are withdrawn, going forward the maximum tax free cash sum will be expressed as a monetary limit – initially £268,275 (which is 25% of the previous lifetime allowance of £1,073,100).

For this reason the abolition of the lifetime allowance is less generous than it appears, as all pension benefits in excess of £268,275 will now be subject to income tax when withdrawn from the fund.

Nonetheless, given the ability of pension funds to cascade wealth down generations (perhaps to beneficiaries who will pay lower rates of income tax, or indeed no tax at all if the pension member dies before age 75), the case for maximising pension contributions is compelling.

Note that this last point is particularly relevant for those with lifetime allowance protection – it is imperative this protection is retained and not inadvertently lost, because in future it will protect the individual's entitlement to withdraw up to 25% of their protected lifetime allowance as tax free cash. This could be worth an extra £106,725 in tax free cash for someone with a protected lifetime allowance of £1.5m, for example.

Finally, it is worth mentioning that the Labour opposition has already indicated they will reverse this policy and will presumably bring in a new lifetime allowance limit should they win the next general election. Although it is unwise for advisers and clients to try to pre-empt future legislative changes, this does feel like a distinct possibility.

Annual allowance

The Budget also saw a significant increase in the annual allowance. Broadly speaking, this is the limit on the amount which can be saved into a pension in each tax year without incurring an income tax charge.

This limit has been fixed at £40,000 since 2014 but has now increased to £60,000 as of 6th April 2023. Again, the intention is to remove disincentives to work for those in public sector pension schemes who might otherwise find themselves paying high tax charges on pension savings which they cannot easily avoid or control.

Happily, it also creates the opportunity for those with savings or who control their own companies to add to their pension funds at a faster rate than has been the case for many years.

Combined with the fact that corporation tax savings on company pension contributions is now available at 25% rather than 19%, pensions really should be considered for any business owner looking to extract business profits tax-efficiently.

High earners previously subject to a reduced annual allowance owing to their income (the tapered annual allowance) have also been given a significant reprieve – the income threshold at which the annual allowance starts to be reduced has increased from £240,000 to £260,000, and the minimum level has increased from £4,000 to £10,000 (for those earning over £360,000 pa).

Lastly, the annual allowance for those who have previously accessed pension savings flexibly (known as the money purchase annual allowance) was increased from £4,000 to £10,000, allowing these individuals to rebuild their pension savings more quickly than had been the case.

In summary, the Spring Budget has greatly extended the tax advantages of pension schemes by way of the removal of the lifetime allowance and increasing the annual allowance, although caveats remain and taking good, personalised and fully independent advice is essential.

Whether these changes ultimately encourage more experienced workers to remain in the workforce for longer, or simply allow them to accumulate more pension savings at a faster rate and retire more quickly (exacerbating the problem the policies are attempting to solve) remains to be seen!

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