

Budget 2023 pensions update

Key changes

In the [Spring Budget](#) on 15 March 2023 key changes to pension allowances were announced. The changes relating to the 2023/24 tax year were confirmed in the [Finance \(No.2\) Bill](#) published on 23 March 2023.

From 6 April 2023:

- Annual Allowance increases from £40,000 to £60,000.
- Money Purchase Annual Allowance increases from £4,000 to £10,000.
- Tapered Annual Allowance adjusted income limit increases from £240,000 to £260,000 and the allowance cannot be reduced to be less than £10,000 (up from £4,000).
- The Lifetime Allowance Charge is removed.
- Anyone who held Enhanced or any of the Fixed Protections before 15 March 2023 will be able to make contributions whilst retaining any entitlement to protected Pension Commencement Lump Sums above £268,275.
- The maximum Pension Commencement Lump Sum for those with Enhanced Protection with lump sum protection will be capped at the amount which could have been paid on 5 April 2023.

From 6 April 2024:

- The Lifetime Allowance will be removed entirely.
- Maximum Pension Commencement Lump Sum for those without protection will remain at £268,275 and be frozen thereafter.
- Anyone who held protection before 15 March 2023 which gave them a protected right to a higher lump sum will retain that protection. For those with Enhanced or any of the Fixed Protections this will only apply provided they did not make any contributions between the date of protection and 5 April 2023.

Annual Allowance

From 6 April 2023 the Annual Allowance (AA) will increase from £40,000 to £60,000. Carry forward will continue to work as previously. When calculating carry forward you should use the AA applicable in the tax year from which you are carrying forward.

For example, if no contributions had been made in the previous three tax years then contributions of up to £180,000 could be made in 2023/24. This would use £60,000 from the 2023/24 tax year and £40,000 from each of the three previous tax years when this was the applicable AA.

To qualify for carry forward the individual must have been a member of a pension scheme in the tax year from which they are carrying forward. It is also worth noting that personal contributions are limited to 100% of UK relevant earnings in the tax year the contribution is made.

Money Purchase Annual Allowance

The Money Purchase Annual Allowance (MPAA) applies to anyone who has flexibly accessed their pension benefits. This includes anyone who has taken any income under Flexi-Access Drawdown or taken an Uncrystallised Funds Pension Lump Sum (UFPLS). Once benefits are accessed the standard AA no longer applies, and the lower MPAA applies instead. From 6 April 2023 the MPAA will return to its original level of £10,000. This higher level of MPAA also applies to those people who have triggered MPAA in previous tax years.

Once the MPAA has been triggered carry forward is no longer available – this is an allowance that has to be used each tax year or it is lost.

Tapered Annual Allowance

The Tapered Annual Allowance (TAA) reduces the Annual Allowance available to those with high income. From 6 April 2023 where adjusted income is over £260,000 tapering may apply. Previously this started at £240,000. Adjusted income includes all income plus any employer pension contributions paid in the relevant period.

When the £260,000 limit is exceeded tapering will apply if threshold income is above £200,000. Threshold income includes all income but is reduced by personal contributions entitled to relief at source.

Where both limits are exceeded the AA is tapered by £1 for every £2 over the adjusted income limit.

The lowest allowance available in 2023/24 will be £10,000. This will apply to those with adjusted income of £360,000 or more as it is now tapering down from £60,000 instead of £40,000.

Lifetime Allowance 2023/24

The Lifetime Allowance (LTA) will remain at £1,073,100 for the 2023/24 tax year. However, the Lifetime Allowance Charge (LTAC) that arises when the LTA is exceeded will be removed. Where the LTAC of 25% would previously have applied then this charge will no longer arise. For lump sum payments that would have been subject to the 55% charge, this charge will be removed and instead the excess lump sum will be subject to Income Tax on the recipient.

It is important to note that it is only the LTAC itself that is changing in 2023/24. Benefit crystallisation events will still take place, and pension scheme administrators are still required to report these events to HMRC as previously.

This means members will still need to provide information on any previous crystallisation events and details of any protections held. We will still issue benefit statements which state how much of the LTA has been used. The only difference is that the LTAC will not apply as previously.

Lifetime Allowance 2024/25 onwards

The Chancellor announced that from 6 April 2024 the LTA will be abolished completely and removed from legislation. This will happen in a future Finance Bill and is not part of Finance (No.2) Bill which came out on 23 March 2023. HMRC stated in its March Pension Schemes Newsletter that once the LTA is removed from pension tax legislation further information and guidance will be issued.

Pension Commencement Lump Sum

In 2023/24 the maximum Pension Commencement Lump Sum (PCLS) will remain as 25% of the LTA – i.e. £268,275. From 2024/25 onwards when the LTA is removed the maximum amount of PCLS will be frozen at this level. However, see section below regarding those who hold protection.

We await confirmation of how UFPLS payments will be dealt with once the LTA is removed, but we would expect these to be restricted to prevent the tax-free element being higher than that available under PCLS.

Protection

In its March newsletter HMRC confirmed members with a protected right to a PCLS higher than the frozen amount of £268,275 will continue to be able to access this right going forwards.

The Finance (No.2) Bill also confirmed that anyone who holds valid Enhanced Protection, or any of the Fixed Protections, where they applied for it before 15 March 2023 can make contributions or start benefit accrual from 6 April 2023 and retain their right to higher PCLS.

For members with Enhanced Protection with a protected lump sum the maximum amount of PCLS they are entitled to will be capped at the maximum that would have been payable on 5 April 2023.

For anyone who has stand-alone lump sum protection this will also be capped at the amount payable on 5 April 2023. Any funds above this level will not be classed as a stand-alone lump sum.

As the LTA is still in place in 2023/24 there will be no change to the calculation of PCLS for members who hold Primary Protection, Enhanced Protection without a protected lump sum, or any of the Fixed or Individual Protections.

We expect that the legislation that removes the LTA from 2024/25 will apply a maximum PCLS for those with protection at the same level as held currently. For example under Primary and Enhanced Protection (with no lump sum protection) the maximum PCLS would remain at 25% of £1.5 million, for the Fixed Protections 25% of £1.8 million / £1.5 million / £1.25 million as applicable, and the maximum under Individual Protection would remain as 25% of the protected amount. However, none of this is yet confirmed and we cannot verify that this is how it will work until the legislation is published.

We have received queries regarding PCLS from 2024/25 onwards and whether, when the maximum is defined as a monetary amount rather than 25% of the LTA, there may be changes which allow defined contribution schemes to pay the balance where defined benefit schemes pay less than 25% of the fund. Similarly we have been asked whether those that have already used 100% of their LTA but PCLS was less than £268,275 if they will be able to take further PCLS. At the moment these are unknown until further legislation and guidance has been issued. Only details relating to what happens in 2023/24 have been confirmed.



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