

# PENSIONS – THE SPRING BUDGET IN MORE DETAIL

April 2023

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**SCOTTISH WIDOWS**





## LEARNING OUTCOMES

(APPROXIMATE PRESENTATION DURATION – 45 Minutes)

This session covers an in depth review of the latest 2023 budget pension changes, the impact on existing and new Lifetime Allowance protections, and finally the impact on protected PCLS lump sums in excess of the current 25% cap.

By the end of this session, you'll be able to explain:

- 1 An overview of the pension changes announced in the March 2023 budget**
- 2 Current LTA transitional protections and how they are impacted by the changes**
- 3 How higher PCLS is calculated for Lifetime Allowance protections**

CHANGE, CHANGE, CHANGE

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## BUDGET CHANGES ANNOUNCED

**FT ADVISER**

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Budget 1 hour ago

### Budget 2023: Advisers welcome LTA scrap but warn of 'snags'

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Advisers discuss Budget changes to pensions and warn of complications. (Myriam-Fotos/Andrea Piacquadio/Thirdman/Dreamstime/Stefan Rousseau/FTA montage/Carmin Reichman/FTAdviser montage)

By [Ima Jackson-Obot](#)

**A**dvisers have welcomed the abolition of the Lifetime Allowance - as announced by chancellor Jeremy Hunt in the Spring budget today (March 15).

From April 2023, the lifetime allowance charge will be removed, before the allowance is abolished entirely from April 2024.

Under previous plans, the LTA was due to remain at £1.073mn up to and including the 2025/26 tax year, although there had been much speculation in the run-up to the Budget that the cap might be lifted to nearer £1.8mn.

This is expected to cost the Exchequer £135mn in 2023-24, £210mn in 2024-25 and then £770mn, £800mn and £835mn in the three tax years that follow.

# BUDGET CHANGES ANNOUNCED



Currently, the maximum amount that most savers can claim as a pension commencement lump sum is 25 per cent of their available lifetime allowance at the time this sum is taken.

The government has set a maximum cap of £268,275 (25 per cent of the current lifetime allowance).

However, those individuals who already have a protected right to take a higher tax-free lump sum will continue to be able to do so.

# BUDGET CHANGES ANNOUNCED

The image is a screenshot of a news article from FT Adviser. At the top, the FT Adviser logo is visible, along with navigation links for Home, Pensions, Investments, Mortgages, Protection, Regulation, Tax, and Your Industry. The article is dated 'Budget' and '4 hours ago'. The main headline reads 'Budget 2025: Pensions annual allowance increased by £20k'. Below the headline are social media sharing icons for Twitter, Facebook, LinkedIn, Email, and Print. The central image shows Chancellor Jeremy Hunt in a dark suit and light blue tie, carrying a red briefcase and waving. Below the image is a caption: 'Chancellor Jeremy Hunt has increased the pensions annual allowance in the Budget. (AP/Kirsty Wigglesworth)'. The author is listed as 'By Amy Austin'. The first paragraph of the article states: 'Chancellor Jeremy Hunt has increased the pensions annual allowance from £40,000 to £60,000 as part of his 'back to work' Budget.'

"Both [the annual allowance and lifetime allowance] have been cut dramatically since 2010, raising the exchequer an estimated £8bn a year in additional revenue.

"Increasing them will reduce the damage they do, but even better would be a more thorough reform of how pensions are taxed. High earners with big pension pots do benefit from inappropriately generous tax treatment of pensions, but there are much better ways of restricting this than these crude limits."

## BUDGET CHANGES ANNOUNCED

### £4bn tax allowance giveaway will lead to 'flood' of money into pensions

Pension allowance reform praised by industry but cost and impact of measures questioned



Aarman Itiparus

15 March 2023 • 8 min read

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Image: Steve Hinton says the measures will affect relatively few people in practice.

The pensions industry has branded the pension allowance overhaul in today's (15 March) Spring Budget as "a huge tax giveaway" and one that might only help "relatively few" people in practice.

As part of his package of economic measures, chancellor Jeremy Hunt scrapped the lifetime allowance (LTA) and increased the annual allowance (AA), money purchase annual allowance (MPAA) and minimum tapered annual allowance (MTAA).

The AA will increase to £60,000 and the MPAA and MTAA will rise to £30,000.

"We need a cross party consensus that puts pensions saving, and in particular tax relief, on a long term footing. If this gets reversed early in the next parliament then these changes will have been pointless and arguably would have done more harm than good."

Armitage added: "What's missing from this Budget is a strategy for improving long-term saving for everyone, including the lowest earners."

**SCOTTISH WIDOWS**

Source: <https://www.professionalpensions.com/news/4080570/gbp4bn-tax-allowance-giveaway-lead-%E2%80%98flood-money-pensions>

## WHAT WOULD LABOUR DO?



The Labour Party has confirmed it would reinstate a lifetime allowance on pensions if it were to win the next election, reversing one of the key announcements in yesterday's Budget.

However the prospect of this being reintroduced, potentially just months later, with an election due by January 2025, has been described as 'farcical' by pensions experts, and raises the prospect of yet more complexity as protection measures would be needed for those who exceed this level while it was part of the permitted rules.



## BUDGET CHANGES IN FULL - LTA

- *The government announced that from 6 April 2023 the lifetime allowance charge would be removed. The lifetime allowance will be fully abolished from the 2024 to 2025 tax year, through a future Finance Bill.*
- *The lifetime allowance framework therefore remains in place from 6 April 2023, and it is just the lifetime allowance charge that has been removed at this stage. As a pension scheme administrator, you will need to continue to operate lifetime allowance checks when paying benefits (for example assessing whether an individual has available lifetime allowance) and to issue benefit crystallisation event statements.*
- *Further information and guidance will be issued when the lifetime allowance is completely removed from pension tax legislation.*

## BUDGET CHANGES IN FULL - PCLS

- *As a result of the changes to the lifetime allowance, the maximum amount which a member can take as a pension commencement lump sum (PCLS) will be frozen at £268,275 — 25% of the current standard lifetime allowance of £1,073,100. Members with a protected right to a higher PCLS will continue to be able to access this right.*
- *Members who hold a valid enhanced protection or any valid fixed protections, where this protection was applied for before 15 March 2023, and a certificate or reference number subsequently issued, from 6 April 2023 will be able to accrue new pension benefits, join new arrangements or transfer without losing this protection. They will also keep their entitlement to a higher PCLS.*

## BUDGET CHANGES IN FULL – PCLS PROTECTION

- *Enhanced protection was introduced when the LTA first came into effect in 2006. People could use it to avoid an LTA excess charge when accessing their pension but would have to stop putting new money into defined contribution schemes and limit the benefits they accrued in defined benefit pensions. If the individual's lump sum pension rights were more than £375,000 at 5 April 2006, these lump sum rights were also protected as a percentage of each BCE.*
- *Clients who have taken out enhanced protection with protected tax-free cash against pension lifetime allowance (LTA) charges will have their tax-free lump sum capped at the protected tax free cash percentage of their pension value on 5 April following the Spring Budget.*

## BUDGET CHANGES IN FULL – PCLS PROTECTION

- *If a successful late application is made for enhanced protection or fixed protection on or after 15 March 2023, the member will be entitled to a higher pension commencement lump sum, but will be subject to all existing rules for protection cessation events. This means if they have a protection cessation event after 6 April 2023, they will lose their lifetime allowance protection.*
- *“These changes still allow pension savers to supercharge their pension pots over the next few years. But this crucial rule freezes the amount they can withdraw tax-free, with [HM Revenue & Customs] preventing those with enhanced protection from completely exploiting the new regime.”*

## BUDGET CHANGES IN FULL – FIXED PROTECTIONS

	Level of protection	Max pension commencement lump sum	Application deadline
Fixed protection 2012	£1.8m	£450,000	5 April 2012
Fixed protection 2014	£1.5m	£375,000	5 April 2014
Fixed protection 2016	£1.25m	£312,500	None

## BUDGET CHANGES IN FULL – OTHER LUMP SUMS

- *Where the following payments would currently be subject to a lifetime allowance charge at 55%, from 6 April 2023 they will be taxed at the recipient's marginal rate:*
- *Serious Ill-Health Lump Sum*
- *Uncrystallised Funds Lump Sum Death Benefit*
- *Defined Benefits Lump Sum Death Benefit*
- *Lifetime Allowance Excess Lump Sum*
- *Further information available at:*  
***<https://www.gov.uk/government/publications/lifetime-allowance-guidance-newsletter-march-2023>***

## BUDGET CHANGES IN FULL – ANNUAL ALLOWANCE

- *From 6 April 2023 the annual allowance for tax relief on pension savings in a registered pension scheme will increase from £40,000 to £60,000.*
- *The adjusted income limit will increase from £240,000 to £260,000. This means if a member's adjusted income is over £260,000, their annual allowance in the tax year may be reduced. For every £2 their adjusted income goes over £260,000, their annual allowance for the current tax year will reduce by £1. The minimum reduced annual allowance a member can have from 2023 to 2024 onwards is £10,000. This has been increased from £4,000.*
- *For the tax year 2023 to 2024 onwards, the money purchase annual allowance limit will also increase from £4,000 to £10,000.*

# LTA PROTECTION IN MORE DETAIL

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## ENHANCED PROTECTION

- *If you hold valid enhanced protection with lump sum protection, you can retain the lump sum protection that is noted on your protection certificate. This means that you are entitled to a tax-free lump sum at the value of the protected percentage of your pension pots on 5 April 2023.*
- *For example, if you hold enhanced protection with lump sum protection of 40% and the value of your pension pots on 5 April 2023 is £1,600,000, you are entitled to a tax-free lump sum of up to £640,000.*
- *Any contributions made after 5 April 2023 will not be included in the calculation for your increased tax-free lump sum.*

## ENHANCED PROTECTION

- *If you hold valid enhanced protection, but do not hold lump sum protection with it, you are entitled to a tax-free lump sum of up to £375,000.*
- *If your successful application was received by HMRC before 15 March 2023, then from 6 April 2023, you can continue to contribute to your pension schemes without losing your enhanced protection.*
- *If your successful application was received by HMRC on or after 15 March 2023, you'll still need to meet certain conditions for the protection to be valid.*

## PRIMARY PROTECTION

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- *If you hold valid primary protection with lump sum protection, you continue to be protected at the value of the lump sum protection stated on your protection certificate.*
- *If you have a pension debit applied from a pension sharing order that results in value of your pension pot going below £1.5 million, your increased tax-free lump sum will revert to 25% of the standard lifetime allowance.*

## FIXED PROTECTIONS

- *If you hold valid:*
  - *fixed protection, you are entitled to a tax-free lump sum of up to £450,000*
  - *fixed protection 2014, you are entitled to a tax-free lump sum of up to £375,000*
  - *fixed protection 2016, you are entitled to a tax-free lump sum of up to £312,500*
  - *If your successful application was received by HMRC before 15 March 2023, then from 6 April 2023, you can continue to contribute to your pension schemes without losing your fixed protection.*
  - *If your successful application was received by HMRC on or after 15 March 2023, you'll still need to meet certain conditions for the protection to be valid.*

## INDIVIDUAL PROTECTIONS

- *If you hold valid individual protection 2014, you applied for your lifetime allowance to be protected at either:*
  - *the lower of the value of:*
    - *all of your pension pots on the 5 April 2014*
    - *£1,500,000*
  - *You will be entitled to a tax-free lump sum of 25% of your protected lifetime allowance or 25% of the standard lifetime allowance, whichever is higher.*
- *For example, if you hold individual protection 2014 at £1,400,000, you'll have an increased tax-free lump sum of £350,000.*
- *If you have continued to contribute to your pension schemes from 6 April 2014, these contributions will not be counted towards the amount of tax-free lump sum you are entitled to.*

## INDIVIDUAL PROTECTIONS

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- *If you hold valid individual protection 2016, you applied for your lifetime allowance to be protected at the lower of the value of all of your pension pots on the 5 April 2016 or £1,250,000. You will be entitled to a tax-free lump sum of 25% of your protected lifetime allowance or 25% of the standard lifetime allowance, whichever is higher.*
- *If you have a pension debit applied from a pension sharing order that results in the value of your pension pot falling below the minimum value required for the protection, your increased tax-free lump sum will revert to 25% of the standard lifetime allowance.*

## APPLYING FOR PROTECTION

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- *You can still apply for Fixed Protection 2016 and Individual Protection 2016 online.*
- *If you apply for Fixed Protection 2016 now, the protection cessation conditions apply from 6 April 2016 and continue to apply from 6 April 2023.*

WHAT IS THE EXPECTED IMPACT?

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## ECONOMIC IMPACT

- *This measure will have macroeconomic impacts by increasing employment and labour force participation. In their March 2023 Economic and Fiscal Outlook (EFO), the OBR estimated that changes to the lifetime allowance and the annual allowance on pension contributions will increase employment by around 15,000 in 2027 to 2028, by removing some financial disincentives to continuing in employment for those with large pension pots.*
- *This measure will have a positive impact on individuals saving into a registered pension scheme who are likely to be liable to an AA and/or LTA charge because their pension savings exceed one or both of these limits. This is because increases to the AA, MPAA, and tapered AA will either lift individuals out of scope of the AA or reduce their AA charges. Further, nobody will be face an LTA charge from April 2023.*

## OTHER IMPACTS

- *Continued savings could be seen by businesses as removal of the LTA will ultimately reduce registered pension schemes' administrative burden and costs since there will be less reporting and fewer calculations to complete.*
- *For some customers, experiences of interacting with HMRC and communicating with their pension scheme(s) may improve. Where an individual is lifted out of scope of the AA or had anticipated an LTA charge, this will simplify the Self Assessment (SA) process and may remove the need for them to complete an SA tax return. Moreover, individuals will no longer have to supply information connected to the LTA to their pension scheme administrator, and individuals with LTA protections (made redundant by this measure) will no longer be required to comply with protection conditions.*



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# IMPORTANT NOTES

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given.

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