

The Spring Budget summary – putting power back into pensions

Following speculation about initiatives that encourage returning to work and tackling the cost-of-living crisis, the Spring Budget introduced some reforms that will offer significant benefits to higher rate taxpayers. The Budget announcement was heavily geared towards economic growth, particularly in the face of concerns that existing freezes on pension allowances have been causing professionals like doctors to retire early.

However, some changes announced to pension and household support were surprising. We have summarised how these policies may impact various areas of your life below.

Pensions

The pension changes are split into two sections: (i) pension funding, and (ii) pension benefits.

Pension Funding

The Annual Allowance on which pension contributions are eligible for tax relief will rise from £40,000 to £60,000 from 6th April 2023 - a 50% increase in the amount you could potentially save into your pension.

The Money Purchase Annual Allowance and the Tapered Annual Allowance will more than double from £4,000 to £10,000 each from 6th April 2023. This means that those who have already accessed their pension flexibly, or those who are high-earners and subject to the taper, will have greater capacity to continue to fund their pension schemes.

In addition, the adjusted income threshold - the level at which the Tapered Annual Allowance comes into effect - will be increased from £240,000 to £260,000 from 6th April 2023, furthering high-earners' ability to save more for life after work.

All the above means that an individual earning £260,000 a year, who would have previously been limited to contributing only £30,000 to their pension, will now be able to contribute £60,000 - a full 100% increase in allowance.

Pension Benefits

It was announced that the Lifetime Allowance (LTA) will be abolished from 6th April 2024. As the government will legislate for this change in the next Finance Bill, the LTA charge will be removed from 6th April 2023 as an interim measure.

The LTA caps the total amount a person can save in a pension without incurring an additional tax charge. Since being introduced in April 2006 at £1,500,000, and peaking at £1,800,000 in 2012, it has been subject to a number of cuts and freezes. Under previously announced plans, the LTA was due to remain at £1,073,100 until the end of the 2025/26 tax year. Each reduction in the LTA has been accompanied by a new set of 'LTA protections', allowing some pension savers to keep a higher personal lifetime allowance.

The maximum amount of money available 'tax-free' when a person takes benefits from their pensions - known as the Pension



Tax year	Lifetime allowance (LTA)	Annual allowance (AA)	Money purchase annual allowance (MPAA)	Minimum tapered annual allowance
2022/23	£1,073,100	£40,000	£4,000	£4,000
2023/24	LTA charge removed	£60,000	£10,000	£10,000
2024/25	LTA abolished	TBC	TBC	TBC

Commencement Lump Sum (PCLS) - will remain at the current level of £268,275 (25% of the previous LTA of £1,073,100). Pension savers with LTA Protection will still be entitled to a larger PCLS if their protection remains in place.

Household Support

With plenty of coverage ahead of time, and in the midst of a continuing cost of living crisis, household support was always going to be a key focus of the latest Budget. The Chancellor was forthcoming with support for families across a variety of areas, with the aim to aid in household expenditure while also increasing labour force participation.

The Energy Price Guarantee has been extended by another three months to June of this year. This will keep typical household energy bills to £2,500 a year, and by the end of June households will have received £1,500 in support since October 2022.

The planned increase of 11p in fuel duty this year will be cancelled and rates will be kept the same for the next 12 months.

Over the next two years, the government will be significantly expanding the support available to working parents with childcare costs. Set to be released in phases, the aim will be to provide 30 hours a week of free childcare for 38 weeks a year, for eligible working parents of children aged 9 months to 3 years. This is in addition to the existing 30 hours for eligible working parents of 3 to 4 year olds.

Other Allowances

There was no change on the forthcoming plans to reduce the Capital Gains tax and Dividend tax allowances. Elsewhere most other tax allowances remain frozen, including those for income tax,

inheritance tax, and ISA allowances. As covered in our summary of Jeremy Hunt's last budget, this "stealth tax" will mean more taxpayers pay a greater share as incomes continue to rise.

Also announced were a raft of other changes around disability benefits, universal credit reform, and 'returnerships' for workers over 50 looking to get back into employment, with the aim to further assist those who would like to work but find themselves locked out of the job market.

Finally, the government is also increasing draught relief from 1st August 2023, to freeze the duty charged on beer, cider, wine, or spirits in the pub and ensure this will always be lower than in the supermarket.

Summary

The Spring Budget delivered some welcome reforms for higher rate taxpayers, especially when considering employment and household support. While changes like the energy price guarantee will offer immediate benefits for taxpayers, the effectiveness of many of the changes announced will only become visible over the long term.

Abolishing the LTA will make pensions an even more attractive savings vehicle than before. When taken in hand with the higher thresholds for pension funding, this budget offered promising improvements for those saving for life after work.

If you would like to discuss any of these changes in more detail, or understand how they could impact you and your family, please contact your Adviser.

If you feel this summary would be useful to any friends or family, please do share it accordingly.



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