

Spring Budget 2023 – the AA set to rise and the LTA to be swept away



Alert | 15 March 2023

Introduction

Rumours of changes to pensions tax were rife in the run-up to this year's [Spring Budget](#), and many were on the money. Aiming to help ensure that “high skilled individuals such as NHS clinicians are not disincentivised from remaining in the workforce”, the Chancellor of the Exchequer, Jeremy Hunt, announced increases to the annual allowance (“AA”), the tapered AA and the money purchase AA, as well as the abolition of the lifetime allowance (“LTA”). With full details yet to be published, we set out the headlines below.

Key points

- From 6 April 2023:
 - the AA (which limits the total tax-relieved pension savings an individual can make each tax year) will be increased from £40,000 to £60,000. Individuals will continue to be able to carry forward unused AA from the three previous tax years
 - open and closed public service pension schemes for a given workforce will be considered linked for the purposes of calculating AA charges, allowing members to offset any negative real growth for AA purposes in legacy public service pension schemes against the AA
 - the money purchase AA (which applies to any subsequent DC savings by individuals who flexibly access their DC benefits) will be increased from £4,000 back up to its previous level of £10,000
 - the minimum tapered AA will likewise increase from £4,000 to £10,000, and the threshold at which the taper applies will rise to £260,000 (up from £240,000). As the taper currently works by reducing the AA by £1 for every £2 of income over the taper threshold, this suggests that the minimum £10,000 taper will apply to individuals whose income is £360,000 or more. However, this is not clear from the documents published so far, so we await confirmation
 - the LTA charge will be removed as a first step to abolishing the LTA altogether (see below).
- Following the removal of the LTA charge in April 2023 (see above), the LTA (which limits the total amount of tax-relieved pension savings that an individual can build up over their lifetime without incurring an additional tax charge) will be abolished from April 2024

- The maximum pension commencement lump sum for those without protections will be retained at its current level of £268,275 (25% of the current LTA) and “will be frozen thereafter” except where protections apply
- As previously announced, the Government intends to bring forward a package of measures by the autumn which will aim to “unlock” DC pension fund investment into the UK’s innovative firms, to help “develop the next generation of globally competitive companies”. Finally, the DWP is to “improve and expand” access to the Midlife MOT, which involves a “review to help individuals take stock of their finances and wellbeing to prepare for a more secure retirement”. Proposals include improving the digital Midlife MOT tool and “encouraging” signposting by employers and pension providers.

Next steps

With the exception of the abolition of the LTA, measures to implement today’s announcements will be included in the Finance Bill 2023, which is due to be published on 23 March. While no explanation is given for leaving this flagship change to a future Bill, it may be driven to a degree by the need to take stock of the fairly substantial amendments which will be required to tax legislation.