

Spring Budget stop press - pensions

What does the Spring Budget 2023 mean for pension savers?

The focus of today's Spring Budget was growth. "Prosperity with purpose", based on 4 pillars of industrial growth. The third of these pillars and the one we're most interested in is "employment". Excluding students, there are over 7 million working age adults in the UK who are classed as economically inactive. From the Treasury's perspective this is highly problematic for economic growth.

The increasing numbers of people choosing not to work has an impact on inflation as well as productivity. With fewer potential employees in the labour market employers are being forced to pay higher wages to attract staff, which in turn is contributing to rising inflation. More than 1 million of the non-working population are persons who have taken early retirement.

With early retirees in mind and with a view to encouraging them back into the workforce, the Chancellor today announced significant increases to the limits on tax-relief for pension savings.

The standard Annual Allowance, which is the yearly limit on tax-relieved contributions to registered pension schemes, will rise from £40,000 to £60,000 with effect from 6 April 2023. Similarly, the minimum tapered Annual Allowance (which applies to earners with taxable income over £240,000 (rising to £260,000)) and the Money Purchase Annual Allowance (which restricts the tax relief available once a person has accessed his or her pension savings) will both increase from £4,000 to £10,000.

The standard Lifetime Allowance, which is the maximum amount of pension savings a person can build up across all of his or her registered pension schemes before a tax charge becomes due, is currently £1,073,100. From 6 April 2023 the Lifetime Allowance charge will be abolished, and the Lifetime Allowance itself will subsequently be removed.

We do not yet have any detail on how this will be implemented in practice, including whether the fines that potentially apply when a person loses Fixed Protection will be abolished too. We do know, however, that the maximum tax-free cash lump sum (which is currently calculated by reference to the Lifetime Allowance) will remain at £268,275 and that it is currently intended to be frozen at that amount for future tax years.

Overall, this is good news for all pension savers. Pension benefits are tax-favoured and an increase in the amount of savings that can benefit fully from the beneficial regime is positive for all concerned. The changes aren't wholly straightforward, however, and advice may be needed for anyone who, for example, currently has personalised Lifetime Allowance protection, or who is considering taking advantage of the Annual Allowance carry-forward provisions with a view to maximising their pension saving.

If you would like to discuss how these changes may affect you, or the pension savings opportunities now available, please do not hesitate to contact Estella Bogira at estella.bogira@shlegal.com or on 0207 809 2298, or your usual Stephenson Harwood contact.