Spring Budget 2023 – information on the new pensions tax changes

Summary of upcoming changes

In the Spring Budget the Chancellor announced a number of changes in respect of taxation on pension savings, these changes included:

- Increasing the standard Annual Allowance from £40,000 a year to £60,000 a year from 6 April 2023

- For the highest earners, the Annual Allowance is reduced, by £0.50 for each £1 by which adjusted income exceeds £260,000. The minimum reduced annual allowance a member can have from 6 April 2023 onwards is £10,000. This has been increased from £4,000.

- Increasing the Money Purchase Annual Allowance from £4,000 a year to £10,000 a year from 6 April 2023

- Removing the Lifetime Allowance charge from 6 April 2023

- Freezing the maximum amount a member can take as a pension commencement lump sum at £268,275 (25% of the current standard Lifetime Allowance). The government has indicated that individuals with a protected right to a higher pension commencement lump sum will continue to be able to access this right.

How might these changes affect me?

Depending on your personal circumstances, the changes might impact the tax treatment of your pension when you take benefits from the Fund from 6 April 2023. This includes benefits from any Addition Voluntary Contributions (AVC) you have made.

The changes may be relevant if you are considering whether to opt-in to the Fund if you've previously opted out – see more on this below – or when making any changes to the level of AVCs you make.

It's also important to think about pension savings you may have built up outside of the Fund, as these will also be impacted by the changes.

Can I opt back in to the Fund?

The removal of the LTA charge from 6 April 2023 will mean that members who have previously opted out could re-join the Fund for future service (subject to the normal re-joining conditions of the Fund) and accrue further benefits without incurring a LTA charge or removing any enhanced or fixed protection they may already have had in place prior to 15 March 2023. The member would also retain any entitlement they have to a higher pension commencement lump sum.

Members will still be liable for a tax charge, however, if the AA (or tapered AA) is exceeded.

If you have previously opted out and receive a cash supplement, this cash supplement would cease to be payable on re-joining the Fund.

Are there any risks I should know about?

The legislation formally making the changes to the LTA and AA hasn't been passed yet.

This means there is a risk that the law won't come into force as expected and so members looking to make any decisions on the basis of these changes should to proceed with caution until the Finance Bill 2023 (which contains these changes) becomes law.

In addition, there are indications that, were there to be a change of Government, the abolition of the LTA may be reversed. However, if this were to happen, there is no way of understanding at present how this would affect individuals who have taken action in the meantime.

Should I take advice?

We would therefore recommend that any members looking to make changes following the announcement around changes to the LTA / AA seek tax or financial advice on their individual position to ensure the full implications are understood.

Tax implications are an individual matter and neither the Fund nor the employer is able to provide financial advice on the impact of any individual's personal circumstances.