InSight

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Pensions of significant value

Welcome but unexpected changes to pension tax

Chancellor Jeremy Hunt's first proper Budget 2023, on Wednesday 15 March, brought some welcome but unexpected changes to pension tax. The changes are designed to alleviate the impact of strict pension rules, which are believed by Mr Hunt to have had a negative impact on the country's labour market.

Britons can now expect significant changes that will affect their retirement savings. But to fully understand how these changes could impact on your pension and secure your retirement plans, it is essential to obtain professional financial advice.

EXCEEDING THE ALLOWANCE

The most significant of which was the abolition of the pension Lifetime Allowance (LTA) charge. As of 6 April 2023, the LTA for registered pension schemes has been completely removed, with total abolition set for April 2024. The LTA was previously the maximum amount of savings an individual could make in a registered pension scheme without incurring a tax penalty.

The standard LTA for the 2022/23 tax year was set at £1,073,100, which meant those with pensions exceeding this amount would face a tax charge. However, with the abolition of the LTA, individuals can now contribute as much as they like to their pension schemes without fear of being penalised for exceeding the allowance.

TAX-FREE LUMP SUM

This is particularly good news for those with pensions of significant value, as the value their pension funds can grow to will no longer be capped. It is also worth noting that the government tax relief on pension contributions will still be available, which means individuals can continue to benefit from this incentive.

Additionally, under the previous LTA rules, an individual could withdraw up to 25% of their pension savings as a tax-free lump sum, but that has now changed. The tax-free lump sum that can be drawn at age 55, moving to 57 from 2028, is now capped at £268,275 (unless protection is in place).

UK'S PENSION SYSTEM

To ensure that your retirement plans are not impacted by these changes, it is essential to obtain professional financial advice and discuss what is the best course of action for your situation.

The removal of the LTA charge marks a significant change to the UK's pension system, and it remains to be seen how this will impact pension savings and retirement planning in the years to come.

ATTRACTIVE INVESTMENT OPTION

The tax-relievable annual pension contribution limit has also increased from £40,000 to £60,000, unless tapering applies, which is good news for most people.

Pensions have always been an attractive investment option with tax-relievable contributions, tax-free returns, and in most cases no Inheritance Tax. The removal of the LTA tax regime and the opportunity to rebuild pension benefits with an increased allowance are excellent news for long-term financial wellbeing.

BURDEN OF INCOME TAX

While Individual Savings Accounts (ISAs) have remained unchanged, they still are an essential part of a tax-efficient savings and investment strategy. This strategy removes the burden of Income Tax and Capital Gains Tax (CGT). With the current reduction in the CGT allowance to only £6,000, ISAs and pensions become even more critical.

In summary, the Chancellor's budget was constrained, but the message is clear – it's time to take advantage of the saving incentives. ■

ARE YOUR EXISTING PENSION PLANS SUFFICIENT TO PROVIDE YOU WITH A COMFORTABLE RETIREMENT?

If you're feeling unsure about how the recent changes in pension tax rules might have impacted your retirement plans, we're here to help. We can offer expert advice and guidance on your retirement planning, whether you're in the middle of building your pension pot or preparing for retirement. To learn more about how we can help you, please don't hesitate to get in touch.