Investment*Update*

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Budget 2023: Goodbye lifetime allowance

Better economic forecasts open the door to big tax breaks on pensions and business investment, maintaining the energy price cap, and benefit reforms to encourage more into the workforce

In his first proper Budget, Chancellor Jeremy Hunt took advantage of some improvement in economic forecasts to offer big tax breaks on pensions and business investment, continue the energy price cap, and put more money into encouraging Brits to return to work.

Hunt said he was focused on creating enduring, sustainable growth, rather than simply a short-lived rebound from the pandemic lows. To do that, he targeted several areas that have been identified as impediments to work and investment. The most eye-catching were changes to pensions.

After cutting several tax allowances and thresholds in his Autumn Statement back in November, this time around Hunt was able to offer more to households and businesses. Presenting some of the most wide-reaching pension reforms for several years, the Chancellor didn't restrict his focus to senior NHS practitioners as was previously touted.

Pensions Lifetime Allowance

Following rumours that the Pensions Lifetime Allowance (LTA) was due to be increased to £1.5 million or perhaps to its 2011/12 high point of £1.8m, the biggest shock of the Budget was the proposed abolition of the LTA altogether.

Since its introduction in 2006, the LTA has been very complex and has changed regularly; currently it is set at £1,073,100. The LTA sets a ceiling for your pension pot, above which you must pay extra tax generally when you withdraw it (or when you reach age 75). This ceiling includes both what you pay in and investment returns that increase your pension pot. Currently, that penalty rate is 55% for lump sum withdrawals and 25% if you take the excess as income (in addition to any income tax you pay).

Hunt's changes mean these LTA tax charges will no longer be applicable from 6 April. While the actual removal of the LTA entirely needs to pass through Parliament, it will still continue to exist without any tax charge. The government is aiming for it to be entirely abolished as of 6 April 2024. The impact on pension savers will be almost immediate, as from the 2023/24 tax year there will be no LTA charge, regardless of the size of your pension.

Currently, individuals are typically able to draw up to 25% of their pension benefits up to the LTA as a tax-free lump sum. The removal of the LTA won't remove this limit on tax-free lump-sum withdrawals. As of the 2023/24 tax year, the maximum Pension Commencement Lump Sum (PCLS) will be retained at £268,275 (i.e. 25% of the LTA) and will be frozen thereafter. Except for people who have a right to either a higher lifetime allowance or have pension commencement lump sum protection. For example, Fixed Protection 2016 secures your LTA at £1.25m when it was reduced previously. Although the applications in terms of LTA protection are now limited to either Individual or Fixed Protection 2016, they could offer a greater PCLS than is currently available (25% of £1.25m in this example). If you are unsure about your transitional protection arrangements, please speak to your financial planner.

The original intention of the government, from their consultations, was to ensure that senior NHS practitioners were not motivated by pension tax charges to stop paying into their pensions by either taking early retirement or leaving the NHS altogether. However, the decision to remove the LTA will benefit people in a wide range of industries, and the hope from the government is that it will encourage these experienced individuals with high earnings to remain in the workforce for longer.

Pension contribution allowances

Since reaching its peak in the 2010/11 tax year, the annual allowance for tax-relievable pension contributions has been significantly reduced. Set at £40,000 since the 2014/15 tax year, the annual allowance is now rising for the first time in 13 years to £60,000.

This 50% increase will be welcome to people on higher incomes who will be able to save larger amounts into their pensions going forward. With tax relief rules remaining the same, this increases the incentive for people around the higher and additional rate thresholds to not only save more into pensions each tax year, but also to optimise their tax position through pension contributions.

The annual allowance is tapered for very high earners – and this remains in place – but the point at which it starts to taper has increased to an 'adjusted income' of £260,000. Every £2 of adjusted income over £260,000 will reduce someone's annual allowance by £1 until the annual allowance is tapered down to its new minimum of £10,000. This minimum has now returned to its original level

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Look forward

after being £4,000 from the 2020/21 tax year onwards. The change of these thresholds means higher earners will be able to take advantage of an increased annual allowance, and even those where tapering applies can pay more into pensions than is currently possible, regardless of their income.

In addition to the allowances above, another restriction to pension savers that has been in place since the pension freedoms is the Money Purchase Annual Allowance. This is applicable to those who have flexibly accessed their pension pots, primarily through drawdown, and limits the amount of tax relievable contributions that can be made to pensions. While it was originally £10,000 when introduced, it was lowered to £4,000 from the 2017/18 tax year. After campaigning from a number of pension providers, this has once again increased to £10,000 per year.

While many with larger pension pots will have reduced or ceased contributing to pensions to avoid breaching the LTA, removing it entirely – when considered alongside the changes to the annual allowance for contributions – will make pension saving far more attractive than it has been in recent times, and re-establish the pension as the primary savings vehicle for retirement funding.

Getting Britain working

Other areas that Hunt targeted were reform of long-term illness and disability benefits and support, along with greater funding to encourage more people into the workforce, especially now that flexible working is widely practised. There were also measures to get more of the 7 million working age adults who are currently out of a job back into the workforce, through a mixture of increased support and harsher penalties.

Hunt's Budget also included a multi-billion-pound billion plan to address rampant childcare costs. He expanded free childcare in England and outlined plans to boost the numbers of childminders, subsidise childcare providers and ensure all schools offered 'wraparound' care for school-aged children from 8am to 6pm by 2026.

The government hopes these schemes will persuade more parents to re-enter the workforce once parental leave has finished.

Changes from the Autumn Statement

Some of the major announcements from the Chancellor's statement in November are due to come into effect from 6 April, including an increase to the rate of corporation tax and reductions to the Capital Gains Tax (CGT) annual exempt amount, dividend allowance and the additional rate income tax threshold. These will all go ahead as planned following the Budget announcement. The changes announced on 17 November will result in higher levels of tax and an even greater need for financial planning to ensure tax allowances can be utilised while they're still available. We've put together a checklist ahead of the 5 April deadline here.

UK to avoid recession

New forecasts from the Office for Budget Responsibility, showed a sunnier outlook for the UK economy, helped by lower borrowing costs, lessened energy prices and from the expected effects of Hunt's measures to encourage work. Instead of decreasing 1.4% in 2023, the economy will shrink only 0.2%, according to the government financial watchdog, before recovering to an annual growth rate of 1.9% by 2027. That would mean the UK avoiding a technical recession in 2023 (two quarters of negative GDP growth). This more helpful outlook no doubt gave Hunt the confidence to embark on the reforms we have already discussed. It also helped him to extend the government's energy price guarantee at the £2,500 average annual level through to June, when retail prices are expected to start falling. It had been expected to increase to £3,000.

He also used the fiscal headroom to unveil a three-year 100% 'full-expensing' scheme that allows businesses to offset capital spending on their tax bill. That means buying new cars, equipment, computers, etc, are immediately deducted from the corporate tax they pay. This will cost, on average, £9bn a year.

The Budget was overshadowed by dark clouds gathering over Credit Suisse, one of Europe's biggest lenders. Only days after US-based Silicon Valley Bank, Silvergate and Signature Bank went bankrupt, investors became concerned with Credit Suisse, sending its share price plummeting and causing more worries about weaker banks.
We will offer a more in-depth analysis of the macroeconomic impacts of the UK Budget soon, along with an explanation of what is occurring with Credit Suisse.

The table on the next page sets out the main tax changes for the 2023/24 tax year. But remember that tax treatments depend on your individual circumstances and that the rules could change in the future.

The main tax changes

Personal Taxes		
	2022 Threshold	**2023 Threshold**
45p Additional Rate Income Tax	£150,000	£125,140
40p Higher Rate Income Tax	£50,271	£50,271
Personal Allowance Income Tax	£12,570	£12,570
Dividend Tax Allowance	£2,000	£1,000
Capital Gains Tax Allowance	£12,300	£6,000
Inheritance tax Nil-Rate Allowance	£325,000	£325,000
Inheritance Tax Main Residence Allowance	£175,000	£175,000
Seed Enterprise Investment Scheme Investment Limit	£100,000	£200,000
Business Taxes		
	Old Rate	**New Rate**
Energy Profits Levy	25%	35%
Temporary Electricity Generator Levy	**New tax**	45%

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