# In a hugely significant announcement, the Chancellor announced the abolition of the lifetime allowance (LTA) from April 2023.

For those with larger pension funds, the changes set out bring significant headroom back into the retirement plans of people who might have taken a step back from pensions for fear of breaching these allowances

As ever, the fine print following announcements is important, with there still being a restriction to the Tax-Free Cash available from a pension.

In addition, boosting annual allowances will bring a welcome change to those whose retirement planning has been impacted by declining allowances and freezes in previous years.

## When will the Lifetime Allowance changes take place?

The Lifetime Allowance itself is set to be abolished from April 2024. In the meantime, the lifetime allowance charge will be set at nil from 6th April 2023, meaning no-one will incur the charge.

This also means the following lump sums that are currently subject to a 55% tax charge above the Lifetime Allowance will change to taxation at the individual's marginal rate –

- Lifetime Allowance excess lump sum
- · Serious ill-health lump sum (SIHLS)

- Defined Benefits Lump Sum Death Benefit (DBLSDB)
- Uncrystallised Funds Lump Sum Death Benefit (UFLSDB).

We'll have to wait for further updates on exactly how those who have historic protection on their pensions will be impacted.

#### **Key points**

- The chancellor has announced plans to abolish the lifetime allowance. This will enable people to invest for their retirement without headroom restrictions.
- From 6th April 2023, you can pay more into your pension on an annual basis. The annual allowance has increased from £40,000 to £60,000 (however tapering of the annual allowance will still be in place).
- The Government's drive to encourage older people back into the workforce has seen the Money Purchase Annual Allowance increased from £4,000 to £10,000.
- Tax Free Cash withdrawals (also known as a pension commencement lump sum PCLS) will be capped at 25% of the current Lifetime Allowance. At present, £268,275 is the maximum tax-free cash available, though may be higher where historic protections apply.
- For higher earners the "Adjusted" income level required for the tapered annual allowance to apply to an individual will be increased from £240,000 to £260,000.



# What's happening to the Pension Annual Allowance?

The maximum annual contribution towards retirement planning will increase from £40,000 to £60,000 from 6th April 2023. This is the maximum amount someone can contribute to a pension each year, whilst still receiving tax relief. This allowance has also experienced many changes in past years. In 2010/11, the annual allowance stood at £255,000 before being reduced to £50,000, and then again to its current level of £40,000 – it's been at this level since 2014/15.

The pension "Carry Forward" rule will continue to allow you to take advantage of unused annual allowances from the previous three tax years and add it to this year's allowance where you already have a UK registered pension in place over the period.

# How about Tapered and Money Purchase Annual Allowances?

Reforming the Money Purchase Annual Allowance (MPAA) for people who have flexibly accessed their pension arrangement may encourage older people back into the workforce. It's a complicating factor that has restricted people's pension contributions to as low as £4,000 per year. The government's decision to increase this to £10,000 from 6th April 2023 will remove a significant obstacle for people looking to rebuild their pension, having previously accessed it.

The Tapered Annual Allowance is a further issue for high earners. In the budget announcement, the adjusted income level required for the tapered annual allowance to apply to an individual increases from £240,000 to £260,000 on 6th April 2023 and the minimum amount they can be tapered to has been restored to £10,000 per year (from £4,000) for those with income in excess of £360,000. The Threshold income remains at £200,000.



Overall, these changes are great news for pensions, but it's important to make sure you consider a full review of pension arrangements before making any further decisions and take advice if necessary.

To book a free initial consultation with one of our highly qualified independent financial advisers, please contact us on 01604 621 421 or email on <a href="mailto:enquiries@mhacaves.co.uk">enquiries@mhacaves.co.uk</a>

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Whether it be stopping work in full, or continuing work in some capacity and phasing retirement, we can work with you to structure your income and ensure that any pensions or investments held are positioned to best meet your needs.

## **Inheritance Tax Planning**

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Ultimately, whether you are self-employed or work via your limited company, your goals will be the same.

## We'll work with you to:

- Put a plan in place to help you save for the future, recognising that retirement takes different forms for different people.
- Put cover in place to help protect you if you cannot work due to illness.
- Build a nest egg to help provide for a period should you not have work.
- · Protect your family should the worst happen.
- Help save for other purposes, whether that be buying a property or investing for children.
- Be as tax efficient as possible, to maximise the income you work hard for.
- Bear the administrative burden of putting any arrangements in place and maintaining them on your behalf, allowing you to spend time doing what you do best.

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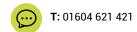
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