Big pension tax changes in the Budget: what do they mean?

Deputy Head of Pensions **Mike Davis** looks at the changes to the Lifetime and Annual Allowances announced in the 2023 Budget.

There were some significant announcements in the Budget on 15 March, particularly on pensions taxation.

The following provides an overview of the main changes which, unless stated otherwise, came into effect on 6 April this year.

Abolition of Lifetime Allowance

The Lifetime Allowance (LTA) was the maximum value of benefits that could be taken from all registered pension schemes (such as AFPS) without being subject to a tax charge.

The LTA tax charge was removed from 6 April 2023 and LTA itself will be abolished from 6 April 2024.

This was a major surprise. While we had hoped that the level of the LTA might be raised to match its highest previous (£1.8 million in 2010/11 and 2011/12), it is fair to say that nobody forecast its abolition.

It is important to note that this is not a retrospective development, so if you are in receipt of a pension that has been reduced to meet LTA charges, then those reductions will be continuing.

For Veterans, if you were previously deterred from joining a new employer's pension scheme because of fears of incurring or exacerbating an LTA charge, those concerns can now be allayed.

Given the privileged inheritance tax (IHT) position enjoyed by pension schemes, we expect that more Veterans will now participate in post-Service pension schemes.

It is also worth noting that the cap on taking tax-free cash from a pension has been retained at 25% of the last LTA level – so a cap of £268,275.

Annual Allowance up from £40,000 to £60,000

This change to the Annual Allowance (AA) is a further improvement, which will mean that many personnel will no longer be caught in the annual pensions tax trap.

Again, this is not retrospective and if you have agreed to meet past AA tax charges through 'Scheme Pays' reductions when you retire, those reductions will still occur.

> All those affected by McCloud should retain tax records back to April 2015

We are continuing to encourage all Service personnel who are affected by the AFPS 15 remedy (McCloud) to retain their historic tax records back to April 2015.

Tapered AA minimum up from £4,000 to £10,000

For the lucky few with earnings above the AA tapering threshold (reference below) the amount of AA that is available will reduce by £1 for every extra £2 earned above the threshold. This improvement means that the wealthiest will not see their AA fall below a £10,000 floor.

Tapered AA threshold up from £240,000 to £260,000

The 'adjusted earnings' threshold before AA tapering 'bites' has been raised from earnings of £240,000 to £260,000. The threshold earnings limit of £200,000 (below which any tapering/adjusted earnings can be ignored) is unchanged.

Although a welcome development, it is unlikely to be an issue for many in the Armed Forces.

Further AA improvements

Negative growth in legacy schemes can be offset against positive growth in reformed schemes. This means members of AFPS 75, AFPS 05 and RFPS 05 who had negative pension input amounts (PIAs) will be able to offset them against the positive AFPS 15 PIAs.

Previously, a negative PIA was treated as having zero worth and hence was of no benefit in AA calculations. This is a very welcome development which has largely crept under the radar of media coverage.

Finally, the Money Purchase Annual Allowance (MPAA) has been raised from £4,000 to £10,000.

This does not affect those who have an Armed Force pension only, but it is a restriction on the amount of pension saving that can be made via defined contribution schemes, where the member has already taken some benefits via income drawdown.

This raising of the available limit is therefore to be welcomed.