

LTA Update

Lifetime Allowance (LTA) & Annual Allowance



On 10th March 2023, the Chancellor of the Exchequer announced several major changes to UK pension legislation. Any high earners, or those with significant pensions, should seek advice on what impact these changes might have. It also represents an opportunity for those with the means to maximise their pension contributions to do so while the prevailing fiscal environment is as favourable as it is set to become.

What is the Lifetime Allowance?

The Lifetime Allowance (LTA), introduced on "A-Day" in 2006, was the maximum amount an individual could save into their pension without incurring an LTA tax charge when they started taking benefits, which applied to all personal and workplace pensions. Since its inception, the LTA has ebbed and flowed to its current level of £1,073,100. In the absence of any protection, any benefits taken from pensions valued over and above the LTA were charged at 25% or 55%, depending on how they were taken (income vs lump sum, respectively). If any of the 13 benefit crystallisation events (BCEs) occurred, the pension was tested against the LTA and, if applicable, a chargeable amount determined.

For those with pension savings that exceeded the LTA when it was first introduced, various protections were introduced, in the form of primary, fixed, or enhanced protection. The caveat to this is that, in most cases, no further contributions could be made to the pension scheme. Any further growth would be reliant on performance of the underlying assets within the pension. Where LTA protection was held, the maximum tax-free lump sum that could be taken was 25% of the protected amount.

What changes were announced?

- On April 6th 2023, the LTA charge will cease to exist. The abolishment of the LTA charge will mean that any benefits drawn over the £1,073,100 amount will simply be subject to income tax at the individual's highest marginal rate, regardless of whether it is in the form of a lump sum or pension drawdown. For higher rate taxpayers, this could mean a 10% tax saving, given that lump sums taken over the LTA were previously taxed at 55%.
- The tax-free cash is going to be fixed at 25% of the current £1,073,100 limit, which is £268,275.
- The annual contribution limit will increase from £40,000 p.a. to £60,000 p.a. The threshold at which the annual allowance tapering starts to apply has increased from £240,000 to £260,000. Further to this, the amount that tapering previously reduced the annual allowance to has increased from £4,000 to £10,000.
- Lastly, for those who have already started taking benefits from their pension and wish to return to work and/or make contributions again, the amount they can contribute (the Money Purchase Annual Allowance (MPAA)) has increased from £4,000 to £10,000.

April 2023



How much can I contribute?

As per the current rules, the new £60,000 annual allowance is subject to tapering if 1) an individual's adjusted income (total income subject to UK tax plus any employer contributions) and 2) threshold income (deducting personal pension contributions and adding any salary sacrifice arrangements) both exceed a certain limit. The new adjusted income limit of £260,000 means that for every £2 above this limit, the annual allowance is reduced by £1. Effectively, an individual with an adjusted income of £360,000 or more will have a tapered annual allowance of £10,000. If one no longer has pensionable earnings, then the maximum amount that can be contributed in any given year is £3,600.

There have been no changes to the carry-forward rules, whereby any unused annual allowance from the previous three tax years can be carried forward and utilised in the current tax year.

What do these changes mean for those who already have LTA protection in place?

For those that currently have fixed protection in place and who have been, by default, unable to make any further benefit accruals to their schemes, they may now benefit from both retaining their LTA protection amount whilst also recommencing contributions to a pension scheme, subject to the above conditions on income levels and carry-forward allowances.

Please contact your North Capital Client Advisor if you would like to discuss further.

For more information, please contact your adviser.

Disclaimer

All financial products carry a certain degree of risk and the value of investments and the income from them can fall as well as rise and you might not get back the original amount invested. This can result from market movements and also from variations in exchange rates between sterling and the currency in which a particular investment is denominated. More than one risk factor may impact an investment at any given time which means that risks can have quite unpredictable effects on the value of investments. Past performance is not an indicator of future results.

Tax and legal information is provided based upon our understanding of current legislation and where appropriate applicable rates. These may change in the future and they may not apply to individual circumstances. North Capital does not give tax or legal advice and you must consult with an independent tax adviser and/or legal adviser for specific advice before entering into, refraining from entering into or exiting any investment or structure or planning.

The opinions expressed on the website or any of the documents on this website are our current opinions and should not be seen as investment advice or as an invitation to purchase or sell any investments. The material only represents the views of North Capital Management Limited unless otherwise expressly noted. The material is based on information that we consider reliable, but we do not represent that it is accurate, complete and/or up to date, and it should not be relied on as such.