



Spring Budget 2023

The Chancellor of the Exchequer, Jeremy Hunt [announced](#) a number of changes to pension taxation, intended to encourage people over age 50 to stay in or return to work, while at the same time simplifying the pensions tax system.

The following changes apply from 6 April 2023:

- The Lifetime Allowance (LTA) charge is abolished, although the LTA concept itself remains for now. The actual LTA is expected to be removed entirely from the pensions tax legislation from 6 April 2024.
- The taxation of the LTA excess lump sum, and other lump sums in excess of the LTA, is changed from the fixed rate tax charge of 55% to taxation at the recipient's marginal rate of income tax.
- The maximum pension commencement lump sum (tax-free lump sum on retirement) is 25% of the current LTA (£268,275), except where a higher amount is already protected, and frozen at that level for future tax years.
- The standard Annual Allowance (AA) is increased from £40,000 to £60,000.
- The Money Purchase Annual Allowance (for contributions to defined contribution (DC) arrangements for members who have already flexibly accessed DC benefits) is increased from £4,000 to £10,000.
- The AA taper (which reduces the standard AA for members on higher incomes) applies where the member has an [adjusted income](#) of over £260,000 (previously £240,000). The [threshold income](#) remains the same at £200,000. For members with an income of over £200,000, for every £2 their adjusted income goes over £260,000, their annual allowance for the tax year is reduced by £1 down to a minimum of £10,000 (previously £4,000).

Pension schemes newsletter 148 and Lifetime allowance guidance newsletter – March 2023

HM Revenue & Customs (HMRC) has published [Pensions schemes newsletter 148](#). This includes, amongst other things:

- A summary of the Spring Budget 2023 announcements, including the LTA and AA changes and how tax relief will be given to 'low earners' paying contributions to pension schemes operating the net pay arrangement.
- Further information on event reports for the tax year 2023/24 onwards, which was covered in Pension schemes newsletter 146.

The latest regular newsletter and the subsequently published [Lifetime allowance guidance newsletter — March 2023](#) provide guidance on the impact of the LTA changes and how things are expected to work from 6 April 2023. Following industry feedback, an email was subsequently issued by HMRC confirming that the pre-6 April 2023 process for reporting taxable lump sum death benefits will be retained rather than the proposed new approach being introduced.

Finance Bill 2023

Measures to implement the LTA and AA changes announced in the Budget from 6 April 2023 are included in [Finance \(No. 2\) Bill](#) which was published on 23 March. The required changes to remove the LTA entirely, and the consequences of that, will be included in future legislation.

Draft legislation for some of the other pensions-related items included in the Bill was published for consultation in July 2022 (see [Pension schemes newsletter 141](#)).

Interim guidance on pension transfers

The Pensions Scams Industry Group (PSIG), has [launched](#) its Interim Practitioner Guide to help scheme trustees and administrators comply with the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 (see [PATHways 130](#)).

A new version of the full Code of Good Practice on pension scams is currently expected to be released later in 2023.

Further SPA review planned

It has been [confirmed](#) that the increase in State Pension age to 67 will proceed as planned by the end of 2028. The Government also intends to have a further review within two years of the next Parliament to reconsider whether the increase in the State Pension age from 67 to 68 should be brought forward. This follows the [State Pension age review 2023](#).

Legislation currently provides for the increase to age 68 to take place between 2044 and 2046.

Support for AE changes

The Government is [backing](#) a [Private Members Bill](#) which would make alterations to the Pensions Act 2008 to allow subsequent changes to be made to the automatic enrolment (AE) provisions. The intention is for the lower earnings limit for contributions to be abolished and for the minimum age for automatic enrolment to be reduced from 22 to 18.

Any proposed changes to the earnings limit and minimum age would be subject to future consultation.

Legislation update

The [Social Security Revaluation of Earnings Factors Order 2023](#) sets the rates for revaluing earnings factors when calculating GMPs in schemes that were formerly contracted out on a salary related basis.

The [Guaranteed Minimum Pensions Increase Order 2023](#) provides that post-5 April 1988 GMPs in payment must be increased by 3% from 6 April 2023.

The [Social Security Benefits Up-rating Order 2023](#) confirms, amongst other things, the full rate of the basic state pension and 'new' state pension from April 2023, while the [Social Security \(Contributions\) \(Rates, Limits and Thresholds Amendments and National Insurance Funds Payments\) Regulations 2023](#) confirm the annual re-rating of various National Insurance contributions rates, limits and thresholds for the 2023/24 tax year.

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