

## **Yellowtail Founder, Dennis Hall, responds to the budget announcements, with a commentary on pension changes.**

We don't typically rush to comment, but Wednesday's budget was one of the most significant for pensions in a long time, and impacts many people we advise. Where once we would be awaiting the announcement of how much the price of cigarettes, booze and fuel was going up, Wednesday was all about pensions.

However, the headlines in the budget speech need to be viewed alongside the details coming out of the Treasury, things are not always as straightforward as they seem.



### **Lifetime Allowance**

It has been reported that the lifetime allowance has been removed, but that's not entirely accurate. The lifetime allowance charge which applies to crystallisations of pensions above the lifetime allowance is being removed from 6 April 2023. This change will be included in the Spring Finance Bill 2023. But it's important to note that for the time being only the charge is removed. The lifetime allowance will be abolished from April 2024 – and the legislation for this will be in a future Finance Bill.

This could have implications for anyone with existing pension protections, and until the lifetime allowance is fully removed we cannot plan with any degree of certainty. The announcement by Shadow Chancellor, Rachel Reeves, to reverse the changes will continue to give uncertainty, and reminds us that politicians don't understand pensions.

The lifetime allowance also impacts several other pension lump sums. Aside from the pension commencement lump sum (see later) there is a serious ill-health lump sum, uncrystallised funds pension lump sum and winding up lump sum. Where these have been above the lifetime allowance a 55% tax charge on the excess has been levied. This will now be subject to income tax on the excess at the individual's marginal rate.

### **Pension commencement lump sum – often referred to as the tax-free cash element**

As a result of the changes to the lifetime allowance, the maximum amount that can be taken as a pension commencement lump sum (PCLS – or tax-free cash) will be frozen at £268,275 which is 25% of the current standard lifetime allowance of £1,073,100. Anyone with a protected right to a higher amount will retain that right.

Anyone who has enhanced or fixed protection, and the certificate or reference number that was issued, will from 6th April 2023 be able to accrue additional pension benefits, join a new pension, or transfer without losing this protection. They will also keep their entitlement to the higher PCLS.

## Annual Allowances

Following the many rumours, this change doesn't come as a surprise. From 6 April 2023, the annual allowance increases from £40,000 to £60,000, the first time it has increased since 6 April 2014. There has been no change to the ability to carry forward unused annual allowance from the three previous tax years. There are other annual allowance changes too.

## Money Purchase Annual Allowance

The money purchase annual allowance is the maximum amount that can be paid to money purchase pension plans without a tax charge after benefits have already commenced. From 6 April 2023 it's been raised from £4,000 to its previous value of £10,000.

## Tapered Annual Allowance

The tapered annual allowance which reduces the amount of annual allowance available for high income individuals has had the adjusted income increased, although the threshold income remains at the present level.

The limits are now:

- Threshold income - £200,000
- Adjusted income - £260,000 (up from £240,000)
- The minimum tapered annual allowance increases from £4,000 to £10,000.

## Conclusion

There is much to be pleased about in this budget, but we won't be rushing to make significant changes to our advice until we are comfortable that the Lifetime Allowance has been abolished by legislation.

For high earners, and in particularly those in the NHS pension, these changes offer some respite, though it may be only temporary. We have never believed in making hurried decisions, or letting tax be the primary investment driver, and that stance in relation to the NHS scheme in particular has turned out well.

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**If you'd like to talk to us about this commentary  
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