

ASSESSING THE IMPACT OF THE 2023 BUDGET CHANGES



LIFETIME ALLOWANCE - EXISTING PROTECTIONS

Emma has just reached her 55th birthday. She has a SIPP which is currently valued at £1.75 million. She also has Fixed Protection registered in 2016, which increased her Lifetime Allowance (LTA) to £1,250,000.

Before April 2023, Emma had a potential LTA charge liability on £500,000 of her fund value. This was the excess of her £1.75 million current pension value over and above her Protected LTA value of £1.25 million.

If Emma had withdrawn this £500,000 from her pension as a lump sum, she would have been liable for an LTA tax charge of £275,000 (55%) on that figure. If she had withdrawn the same £500,000 as income, the LTA charge would have reduced to £125,000 (25%), though she would also have been liable to pay income tax on the sums taken.

However, from 6 April 2023, the LTA charge has been abolished. This is good news for Emma as she will now avoid the penalties described above!

Her maximum potential Pension Commencement Lump Sum (PCLS, or tax-free cash sum) will however remain at 25% of her Fixed Protection figure of £1.25 million, which in Emma's case would be £312,500.

Emma's pension monies in excess of her maximum PCLS (£1,437,500) will be taxed at the point of withdrawal based on her marginal rate of income tax. This puts her in line with someone whose pension fund before 6 April 2023, was below the LTA figure.

The budget then is great news for people like Emma, who were previously facing heavy tax penalties. The LTA itself is not scheduled for removal until April 2024, but the LTA tax charge does not apply from 6 April 2023.

“ For pension savers like Emma, the removal of the LTA represents a significant reduction in tax liability – literally hundreds of thousands of pounds back in their pockets. ”

– Steve Berridge, Technical Services Team Manager



For more information please contact pensions@ifglpensions.com