

ASSESSING THE IMPACT OF THE 2023 BUDGET CHANGES



LIFETIME ALLOWANCE - RESTART ACCRUAL

Sunita is 49, and thanks to a successful career, a strong savings ethos and strong positive investment returns within her Self-Invested Personal Pension (SIPP) has built up pension savings to date of £1,030,000.

In the last meeting with her financial adviser at the end of last year, they discussed the Lifetime Allowance (LTA), and decided that Sunita would cease her ongoing contributions into her SIPP, as she was getting close to the tax efficient savings cap effected by the LTA.

Sunita's adviser commented that because her pension monies remained invested, investment growth alone in the coming years would likely take her accrued savings up to the LTA limit, so further savings should be directed outside of pension. This is because, even though contributions into her SIPP may attract tax relief, once she breached the LTA (£1,073,100), any monies withdrawn from her pension would attract an LTA charge of 55% if taken as a lump sum, or 25% plus income tax if drawn as income. These charges would essentially negate the tax relief benefit of saving into pension.

The budget then represents a significant change for people like Sunita, who were essentially precluded from saving more into pension. The LTA itself is not scheduled for removal until April 2024, but the LTA tax charge does not apply from 6 April 2023.

Following these changes, Sunita and her adviser should reconsider whether recommending saving into her SIPP makes sense.

High earners may also have the opportunity to 'catch up' on any missed months (or years) of saving by utilising carry-forward relief. For some who have several years of paused accrual, and who have sufficient earnings within the current tax year, making full use of carry forward might create the ability to contribute as much as £180,000 gross into their pension in the 2023/24 tax year (£60,000 annual allowance 23/24, plus 3 unused years of £40,000 allowance each).

Individuals in this position should ensure that they speak to their financial adviser to understand any opportunities that the recent budget changes may have opened for them.

“ People like Sunita had turned their back on pensions in terms of future saving. These changes bring pensions back to the foreground of financial planning for successful savers. ”

– Steve Berridge, Technical Services Team Manager.



For more information please contact pensions@ifglpensions.com