



Personal Pension Changes (Updated May 2023)

Personal pension changes from April 2023

In the Budget, the Government announced various changes to support its efforts to encourage inactive individuals to return to work, in particular those aged 50 and above, and to remove incentives to reduce hours or leave the labour market due to pension tax limits.

The Annual Allowance

The Annual Allowance (AA) is an individual's annual limit on tax-relievable pension contributions and applies to personal, employer and employee contributions. Any pension inputs in excess of the AA are charged to tax on the individual as their top slice of income. Unused AA may be carried forward and used for up to another three tax years.

The limit has been £40,000 for a number of years but is increased to £60,000 from 6 April 2023.

The tapered AA

From 2020/21 onwards, individuals who have income for a tax year of greater than £200,000 have their AA for that tax year restricted. It is reduced by £1 for every £2 of income over £240,000, to a minimum AA of £4,000. The individual is a 'high-income individual' for the tax year if their adjusted income is more than £240,000 and the individual's threshold income for the tax year is more than £200,000. The rules are potentially complex.

The adjusted income limit is increased to £260,000 and the minimum AA to £10,000 from 6 April 2023.

The Lifetime Allowance

The Lifetime Allowance (LA) is the total amount that can build up in all pension savings without incurring a tax charge. Once this tax limit is exceeded, there is a LA charge on any further benefits taken, paid at the following rates - 25% on pension income and 55% on lump sums.

The current standard lifetime allowance is £1,073,100 and this is retained for the time being. However, the LA charge is abolished from 6 April 2023. There are also changes to the taxation of the LA excess lump sum. Instead of a 55% tax charge, the LA tax will be due at an individual's marginal rate i.e., the lump sum is taxable as pension income.



In addition, the concept of a 25% tax free lump sum will be changed to limit the maximum an individual can claim as a tax-free lump sum to 25% of the current LA (£268,275), except where previous protections apply.

The Money Purchase Annual Allowance rules

The Money Purchase Annual Allowance (MPAA) rules limit recycling 25% tax-free lump sums via further pension contributions with tax relief. Broadly, if an individual triggers the MPAA rules, then they will have a £4,000 AA for money purchase pension savings. The MPAA is increased to £10,000 from 6 April 2023.

Obviously, pensions can be complicated, and we suggest you discuss these changes sooner rather than later so that you can gauge the potential effect on your personal position.

Contact us should you require advice and assistance - Viraj Mehta, Tax Partner – viraj.mehta@bournerbullock.co.uk