

Major changes to pensions tax allowances

- **The government will be scrapping tax charges for having too much in your pension (If you're about to retire, you may want to think about delaying for a few weeks)**
- **There'll no longer be a limit on how much you can build up in your pension over the course of your lifetime**
- **From April, you'll get tax relief on up to an extra £20,000 you build up across all your pension arrangements each year**

In the Budget announced on 15 March, the government announced some significant changes to the tax advantages for saving into a pension. These have far-reaching implications for both tax and pension law. As we get more clarity, we'll be keeping you updated on how these could affect you.

In the meantime, we've written this article to give you an overview of what's happening and share some thoughts on what the changes may mean for you.

Your lifetime pension savings

When you come to take your benefits, there's currently a limit on how much you've built up in your pension without having to pay a tax charge on the excess. For most people, this limit (known as the 'lifetime allowance') is set at just over £1.07 million.

In April this year, the government is removing the tax charge. And from April 2024, it's scrapping the allowance entirely.

In other words, there will be no limit on how much you can build up in your pension.

What does this mean for me?

If the total value of your pension benefits are close to, or above, the present lifetime allowance and:

- you're about to retire, then you may want to think about putting this off until the tax charge is abolished

or

- you've stopped paying into your pension (or opted out of receiving employer contributions) to avoid the lifetime allowance tax charge, then you might want review this. **Please note, it's not yet clear what these changes will mean for people with protection against the lifetime allowance.** We'll update you as soon as we know more.

Your annual pension savings

Before you retire, there's a limit on how much money you can build up tax-free as a total across all your pension arrangements in any one tax year. If you go above this limit (known as the 'annual allowance'), you won't benefit from tax relief on the excess. For most people, the annual allowance presently stands at £40,000. However, from April this will go up to £60,000.

For those with a lower annual allowance

There are several reasons why your annual allowance might be lower:

If you've already taken, or started to take, a flexible income from your defined contribution pension (such as through income drawdown or by taking all your pension in cash), your allowance is usually reduced. For most people, it's currently £4,000. From April, this limit (known as the 'money purchase annual allowance') is rising to £10,000.

If you have an income broadly above £240,000 a year, your annual allowance will, normally, gradually reduce. For the highest earners, the allowance can be as low as £4,000. This is known as the 'minimum tapered annual allowance'. Like the money purchase allowance, this will also increase from £4,000 to £10,000.

What does this mean for me?

Quite simply, from 6 April, you can get tax relief on up to an extra £20,000 of pension benefit you build up during the tax year. As a result, you may want to think about increasing your regular contributions or consider making an additional lump sum payment to take advantage.

Anything else?

- Although we can suggest some things you may want to think about, neither Siemens nor Trafalgar House can advise you. So, if you're not sure about the best course of action for you, it's probably a good idea to speak to a professional adviser, registered with the Financial Conduct Authority. You can find one by going to www.unbiased.co.uk
- Just so you know, Trafalgar House's letters and forms refer to the allowances and limits before the Spring 2023 budget was announced. It'll take them some time to update their communications to cover the new allowances, but they'll be doing this as soon as they can.