Changes to Pension Rules

Within the recent budget there were several changes to pension rules. These could provide the opportunity for individuals, who were previously limited in their ability to make pension contributions, to start making contributions again.

The first of these changes is the removal of the Lifetime Allowance, this is the maximum level that can be built up in a pension over an individual's lifetime. The limit was initially set at £1.5 million some years ago before increasing to £1.8 million and then being subsequently cut on several occasions down to the current Lifetime Allowance level of £1,073,100.

From 6th April 2023 the tax charge that applies to those who exceed the Lifetime Allowance will be removed, with legislation included in the 2024 Finance Act to remove the Lifetime Allowance entirely. This gives an opportunity for further pension contributions to those who have already reached the Lifetime Allowance and individuals who applied for various kinds of protection when the Lifetime Allowance was previously reduced, which normally required them to stop making pension contributions (although contributions for these individuals can take place only after 6th April).

In addition to changes to the Lifetime Allowance there will also be an increase to the amount that can be invested into a pension each year from £40,000 to £60,000. There remains a restriction for higher earners but the level at which the restriction starts has increased from £240,000 to £260,000 and the minimum tapered Annual Allowance has also been increased to £10,000 from £4,000. The Annual Allowance is tapered by £1 for every £2 of income above £260,000. These changes mean that those with total income of more than £360,000 can now contribute £10,000 to a pension each year, whereas previously anybody with overall income above £312,000 was restricted to a pension contribution of £4,000 per annum.

The final change to pension rules is to increase the Money Purchase Annual Allowance from £4,000 to £10,000. This allowance applied to anybody who has taken flexible income from a personal pension (but not those who have taken only the tax-free element) and is a restriction on future pension contributions. This increase means that individuals who go back to work after having previously taken pension benefits should be able to join their employer's pension schemes without fear of additional tax charges. It can also be helpful for those who have needed to access pension benefits previously but are now able to build up their pensions again.

If you would like to discuss how these changes impact your own pension planning, please speak to your Investment Manager who will arrange a call with our pension specialist.

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