

The main pension changes in Jeremy Hunt's budget on 15 March 2003 (now in the Finance (No 2) Bill 2003), are to:

- increase the annual allowance (AA) from £40,000 to £60,000;
- increase the money purchase annual allowance (MPAA) from £4,000 to £10,000;
- freeze the maximum tax-free lump sum at £268,275;
- increase the income level for tapered AA to apply from £240,000 to £260,000; and
- abolish the lifetime allowance (LTA).

These changes are expected to apply from 6 April 2003, except that the LTA will not be removed from the legislation until 6 April 2004.

background

The crisis in the NHS of senior and highly paid consultant and others reducing their hours or even leaving was an unintended consequence of the FA (No2) 2015 and the introduction of tapered AA. The tax consequences affected all highly paid individuals, but the effect in the NSH was particularly acute. This part of the budget is the latest step taken to mitigate those consequences.

annual allowance

(Finance Act 2004, mainly s188 Relief for contributions, s190 Annual limit for relief, and s228 Annual allowance.)

There is no maximum to the amount of contributions that are paid, by or on behalf an individual, but the maximum amount, on which tax relief (relievable pension contributions) is available, is:

- £3,600 (the basic amount) if the individual's relevant UK earnings chargeable to tax are less than that; or
- his or her relevant UK earnings chargeable to tax up to but not exceeding the AA of, at present, £40,000 plus any amount carried forward.

The budget change, as is self-evident, increases by 50% to £60,000 the amount of relievable pension contributions that can be paid by or on behalf of an individual with sufficient earnings. The basic amount is not changed.

money purchase annual allowance

(FA 2004, mainly s227B The alternative chargeable amount, and s227G When pension rights first flexibly accessed.)

The MPAA is a reduction in the AA for individuals who have flexibly accessed money purchase savings. At present the MPAA is £4,000 and has been that amount since 6 April 2017. The budget increase restores the MPAA to £10,000, the amount that it was before that date.

tax free lump sum

(mainly FA 2004 s166, sch 29 para 1, and Income Tax (Earnings and Pensions) Act 2003, s636A(1).)

25% of the value of an individual's benefits not exceeding his or her available LTA may be taken as a tax free pension commencement lump sum. Any amount taken

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in excess of the individual's LTA is an unauthorised member payment liable to tax as an unauthorised payment charge

The budget change is to freeze the maximum tax free amount to £268,275, which is 25% of the present LTA of £1,073,100. Protection that an individual has for a tax free lump sum in excess of 25% will not be affected

tapered AA

(FA 2004, mainly s228ZA Tapered reduction of annual allowance : high income individual.)

Tapered relief for individuals with threshold income of £200,000 reduces their AA by £1 for each £2 of adjusted income above £240,000, but the AA cannot be reduced below £4,000, which is when the adjusted income reaches £312,000.

This budget change increases the adjusted income by £20,000 to £260,000.

annual allowance

(FA 2004, mainly s214 Lifetime allowance charge to s226, and parts of sch 29)

An individual's LTA for 2022/23 is £1,073,100 and is tested at every benefit crystallisation event (including, very loosely, starting to take pension benefits and, in respect of any remaining unrealised benefits, reaching age 75, transferring to an overseas scheme and dying). A lifetime allowance charge is payable on the excess of the amount crystallised on each BCE over the LTA at 55% if taken as a lump sum and 25% if taken as pension.

The budget proposes that the LTA will be dealt with in two stages:

- first with effect from 6 April 2003, no one will face an LTA charge; and
- secondly with effect from 6 April 2004, the LTA will be removed from the legislation

other changes

(FA 2004, mainly s166 and sch 29.)

The member must have LTA available for the following lump sums to be authorised payments: pension commencement lump sum (PCLS); serious ill-health lump sum (SIHLS); uncrystallised funds pension lump sum (UFPLS); and winding up lump sum. The following death benefits paid out of uncrystallised funds are also tested against the member's LTA: defined benefits lump sum death benefit (DBLSDB) and uncrystallised funds lump sum death benefit (UFLSDB). The SIHLS, DBLSDB, and UFLSDB are tax free up to the LTA for those under 75. Any amount of these lump sums in excess of the LTA is taxed at 55%.

The budget changes is that any excess of the SIHLS, DBLSDB, and UFLSDB in excess of the LTA currently subject to a 55% tax charge, will be taxed at the individual's marginal rate. HMRC's Policy Paper Pension Tax Limits Update 17 March 2020 is silent about the effect of the abolition of the LTA on lump sums, which at present might not be authorised payments, and paragraph 18(2) of the Finance (No 2) Bill 2023 suggests that these payments will remain unauthorised after 5 April 2023. (It seems to me that it would be consistent with the purposes of the budget that they cease to be unauthorised.)

possible unintended consequence

(FA 2004 s186 and s187 (altering the Taxation of Chargeable Gains Act 1992).)

The abolition of the LTA might encourage some individuals to increase their contributions to above the AA and pay the AA charge on them, in order to maximise the size of their pension funds, the investment returns on which are tax free.

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