Spring Budget 2023

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TRULY INDEPENDENT
Financial Advice for Everyone

How the changes affect pensions and taxes.

The Spring Budget 2023 was delivered by Chancellor of the Exchequer, Jeremy Hunt, on March 15. Among key changes announced were those made to pensions, aimed at making it easier for individuals to save for their retirement and encouraging retirees to return to work.

The 2023/24 tax year started on 6 April, and with it come some significant changes to pensions and taxes. We've provided a summary of the key measures.

CAPITAL GAINS TAX (CGT)

The Capital Gains Tax (CGT) exemption has reduced from £12,300 to £6,000. This reduction means that any gains above the exemption amount will be taxed at either 10% for basic rate taxpayers or 20% for higher rate taxpayers. The rates are even higher for gains on second properties, with 18% and 28% for basic rate and higher rate taxpayers, respectively.

The change means that a higher rate taxpayer making a capital gain of £20,000 in the 2023/24 tax year could face a CGT bill of £2,800, with this rising to £3,400 in 2024/25. This represents a significant increase from the £1,540 bill for the 2022/23 tax year.

It's important to keep in mind that the CGT exemption cannot be carried over from one tax year to the next, so it's essential to make full use of the exemption each year. By investing in an Individual Savings Account (ISA), it offers the opportunity to reduce your CGT liability as any gains made within an ISA are exempt from CGT. By being proactive and taking advantage of any available tax allowances, you can help to prevent unexpected tax bills and ensure that you are maximising your investment returns.

ANNUAL DIVIDEND ALLOWANCE

The annual dividend allowance has been reduced from £2,000 to £1,000, with a further reduction to £500 to be implemented in 2024/25. This means that dividend income exceeding the allowance will be taxed at rates of 8.75%, 33.75% and 39.35% for basic, higher and additional rate taxpayers respectively.

For instance, a higher rate taxpayer receiving £5,000 in dividend income could pay over £1,350 in dividend tax by 2023/24, up from £1,012.50 in 2022/23, which is set to increase to £1,518.75 in 2024/25. One way to avoid dividend tax is by investing in an ISA or contributing to a pension fund, which offer tax-free dividends. If appropriate, maximising these tax-efficient options is a popular strategy when mitigating dividend tax.

PENSION LIFETIME ALLOWANCE CHARGE

The pension Lifetime Allowance (LTA) charge has been abolished, which means there will no longer be a tax charge on the amount of money that can be built up in pensions tax-efficiently over an individual's lifetime. From 6 April 2023, the LTA charge has been completely removed, with total

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abolition set for April 2024.

Previously, any excess over £1,073,100 in pensions incurred a tax charge when the individual drew their pension benefits assuming no protection was in place. Despite the removal of the LTA charge, the pension tax-free lump sum has been capped at £268,275 (unless protection is in place).

So, while people can now build a larger pension pot without incurring a LTA tax charge, the tax-free lump sum will not increase along with it. This change may impact an individual's decision to begin drawing money from their pension, also known as 'crystallising' their pension.

PENSION ANNUAL ALLOWANCE

The pension Annual Allowance has increased from £40,000 to £60,000. This means that individuals can pay up to £60,000 or 100% of their UK relevant earnings (whichever is lower) into pensions every tax year and receive tax relief.

However, those with high adjusted incomes above £260,000 per year (previously £240,000) may have a lower Annual Allowance due to the Annual Allowance taper. This taper reduces the annual allowance by £1 for every £2 of adjusted income that exceeds the threshold, to a minimum floor of £10,000 (up from £4,000).

MONEY PURCHASE ANNUAL ALLOWANCE

The Money Purchase Annual Allowance (MPAA) increased from £4,000 to £10,000.

The MPAA comes into play when savers first access Defined Contribution (DC) pensions flexibly, and replaces their standard annual allowance. This means that individuals who access their DC pensions flexibly for the first time can now pay up to £10,000 per year into their pension without having to worry about reducing their tax relief.

ARE YOU LOOKING TO SECURE YOUR FINANCIAL FUTURE?

We'll work closely with you to understand your unique financial situation and help you create a personalised plan to achieve your future goals. By navigating the complexities of the financial world, you can secure a prosperous future for you and your loved ones. Contact us today to learn more.

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