Guidance on the Autumn statement 2023

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Following the autumn statement our compliance support services issued a summary of updates which we have made available to you with some content removed for ease of understanding. If you have any questions or queries about what this means for you, please contact your usual adviser.

The information contained within this article is based on our understanding of legislation, whether proposed or in force, and market practice at the time of writing. Levels, bases and reliefs from taxation may be subject to change.

The Autumn Statement included the announcement that National Insurance (NI) rates are to be reduced and class 2 NI abolished.

Details around the abolition of the Lifetime Allowance from April have been published. We have provided the details below.

The government is to consult on plans to give employees the legal right to have any new employer pay into their own chosen pension arrangement in a bid to achieve, at some future point, 'one plan for life'.

There were no announcements on changes to inheritance tax.

Any measures announced remain potentially subject to change until enacted into legislation. The Autumn Finance Bill 2023 should be published before the end of the year and will then follow the usual parliamentary process prior to being passed into legislation following royal assent.

We have summarised the main points below, along with a reminder of various changes from April 2024 that we were already aware of.

Pensions

Abolition of Lifetime Allowance (LTA) from 6 April 2024

The detail published alongside the Autumn Statement clarifies:

- How lump sums and lump sum death benefits will be taxed in the absence of the LTA
- The position of individuals with LTA protections
- Lump sum protections
- The function of Benefit Crystallisation Events (BCEs)

Lump sums and lump sum death benefits

The taxation of pension income will be through the existing income tax structure for pension income. Authorised lump sums and lump sum death benefits will be tested against a new threshold, set at the same level as the present LTA, £1,073,100. Individuals will not pay tax where lump sums do not take them above this level. Any lump sums paid above this level will be taxed at the individual's or beneficiaries' marginal rate of income tax.

This limit is to apply per person and not per scheme. It will be a personal limit against which all lump sums and lump sum death benefits, from all registered pension schemes, will be tested. It will not take into consideration the payment of regular pension income.

The maximum amount payable for a pension commencement lump sum (PCLS) and the maximum tax-free element for an UFPLS will remain at £268,275, except where protections apply. Any funds taken as a PCLS and uncrystallised funds pension lump sum (UFPLS) will also count toward the overall tax-free limit of £1,073,100, or protected amount.

Where an individual has a scheme-specific lump sum protection and they take a PCLS, their lump sum allowance will not be reduced by the total tax-free amount of the PCLS. It will be reduced by 25% of the lump sum and arising pension.

The tax-free element of a trivial commutation lump sum, winding up lump sum and small pots lump sum will not be deducted from the new thresholds. However, an individual must have available thresholds to be able to take those lump sums.

Where a Stand-Alone Lump Sum (SALS) is paid, but the individual has either primary or enhanced protection, the individual's lump sum allowance and lump sum death benefit allowance will be reduced by the tax-free amount of the SALS. The requirement to have available LTA to take any lump sum payment will be removed.

The Lifetime Allowance Excess Lump Sum (LTAELS) will be removed in the absence of the LTA. The government will instead include provision to take a Pension Commencement Excess Lump Sum (PCELS). Payment of a PCELS will be taxed at an individual's marginal rate.

For the payment of lump sum death benefits from uncrystallised and crystallised funds, in the event a member dies under age 75 and the benefit is paid to:

- Qualifying persons, it will be counted towards the deceased member's lump sum tax free limit, and the excess will be taxed at the beneficiaries' marginal rate
- Non-qualifying persons (such as trusts or personal representatives), it will be counted towards the deceased member's lump sum tax free limit and the excess will be taxed at basic rate - if the payment is made outside of the two-year period and the special lump sum death benefit charge of 45% currently applies, it will continue to be subject to this charge

<u>Protections and lump sum protections</u>

Eligible individuals have until 6 April 2025 to apply for fixed protection (FP 2016) and/or Individual Protection (IP 2016).

Individuals with valid lump sum protections will retain their right to a higher level of tax-free lump sum.

Individuals with valid Lifetime Allowance protections will retain their right to a higher level of tax-free lump sum and to higher tax-free parts of other lump sums and lump sum death benefits.

For individuals with valid enhanced protection, the tax-free part of any serious ill-health lump sum or lump sum death benefit will be limited to the total value that could have been paid under that arrangement on 5 April 2024. Marginal rate taxation will be applied on any excess.

For individuals with a protected pension age below 50, where they take pension benefits before normal minimum pension age (currently 55), their tax-free limit for lump sums and lump sum death benefits will be reduced by 2.5% for every year between their first relevant benefit crystallisation event (RBCE) and the date they reach normal minimum pension age.

<u>Benefit Crystallisation Events and charges</u>

The removal of the lifetime allowance (LTA) means that the standard LTA will not apply as a lifetime limit for all pension savings with effect from 6 April 2024. All benefit crystallisation events (BCEs) will be removed and relevant benefit crystallisation event (RBCEs) will be introduced instead. RBCEs are the payment of relevant lump sums and lump sum death benefits.

<u>Reporting</u>

When a relevant benefit crystallisation event (RBCE) occurs the scheme administrator (or insurance company) will give the individual a statement telling them how much of their allowances have been used by the RBCE.

Transitional

To account for benefits taken before 6 April 2024 a transitional calculation is provided so that individuals can calculate their available lump sum allowance and lump sum and death benefit allowance.

Where an individual has previously used 100% of their lifetime allowance (LTA), they will have exhausted their allowances and the transitional calculation will not apply.

A new method is provided to calculate an individual's remaining available allowances where they had an actual, but not a prospective, right to an existing pension on 5 April 2006.

Members with complete and accurate records of the previous tax-free amounts they have received will have opportunity to provide these records to their scheme for an alternative transitional calculation.

To facilitate the transition from the lifetime allowance regime to the new allowances, the Treasury will have the power, if needed, to make additional necessary primary legislative changes via statutory instrument. This power will only have effect until 5 April 2026.

State pension

Triple lock means new state pension and basic state pension will increase by 8.5% in April 2024. Full new state pension figure will be £221.20 per week.

Other pension reforms

At Autumn Statement the government has announced a comprehensive package of pension reform that will provide better outcomes for savers, drive a more consolidated pensions market and enable pension funds to invest in a diverse portfolio. These measures represent the next steps of the Chancellor's Mansion House reforms and meet the 3 golden rules:

1. To secure the best possible outcomes for pension savers
2. To prioritise a strong and diversified gilt market
3. To strengthen the UK's competitive position as a leading financial centre

The package sits alongside the government's comprehensive capital market reforms, to boost the attractiveness of markets, and make the UK the best place to start, grow and list a company.

To provide better outcomes for savers the government is:

- Introducing the multiple default consolidator model for defined contribution (DC) schemes, to enable a small number of authorised schemes to act as a consolidator for eligible pension pots under £1,000
- Launching a call for evidence for DC schemes on a lifetime provider model to simplify the pensions market by allowing individuals to move towards having one pension pot for life, and on a potential expanded role for Collective Defined Contribution (CDC) schemes in future
- Publishing an update that proposes placing duties on DC occupational pensions trustees to offer decumulation services and products at an appropriate quality and price when savers access their pension assets, either themselves or through a partnership arrangement

To drive a more consolidated pensions market government is:

- Welcoming the current trend of DC pension fund consolidation and expecting to see a market in which the vast majority of savers belong to schemes of £30 billion or larger by 2030
- Welcoming the Financial Conduct Authority (FCA) and the Pensions Regulator (TPR) announcements on next steps towards implementing the Value for Money framework in the DC workplace pensions market
- Publishing a review of the Master Trusts market, 5 years after the 2018 Master Trusts regulations came into force
- Consulting this winter on how the Pension Protection Fund can act as a consolidator for defined benefit (DB) schemes unattractive to commercial providers
- Confirming a March 2025 deadline for the accelerated consolidation of Local Government Pension Scheme (England and Wales) assets, setting a direction towards fewer pools exceeding £50 billion Assets Under Management, and implementing a 10% allocation ambition for investments in private equity

To enable pension funds to invest in a diverse portfolio government is:

- Consulting this winter on whether changes to rules around when DB scheme surpluses can be repaid, including new mechanisms to protect members, could incentivise investment by well-funded schemes in assets with higher returns
- Reducing the authorised surplus payments charge from 35% to 25% from 6 April 2024
- Welcoming TPR’s announcement that they will implement a register of trustees and update the trustee toolkit

- Engaging with industry on proposals to ensure all aspects of the pensions industry are supporting best outcomes for savers, including how to shift employer incentives away from low fees towards long-term pension investment performance
- Committing £250 million to 2 successful bidders in the Long-term Investment for Technology and Science (LIFTS) initiative, subject to final agreement
- Following positive feedback from industry, confirming its intention to establish a Growth Fund within the British Business Bank (BBB)
- Developing a fellowship course targeting mid-career science and technology Venture Capital (VC) investors, similar to the Kauffman Fellowship in the US, to be operational in 2024

Investments

Individual Savings Accounts

The annual subscription limits all remain at their current levels in 2024/25, i.e.

- £20,000 ISA
- £4,000 Lifetime ISA
- £9,000 Junior ISA (and Child Trust Fund)

The government will make changes to ISAs to simplify the scheme and widen the scope of investments that can be included in ISAs.
To simplify the scheme the government will:

- Allow multiple subscriptions in each year to ISAs of the same type, from 6 April 2024
- Remove the requirement to make a fresh ISA application where an existing ISA account has received no subscription in the previous tax year, from 6 April 2024
- Allow partial transfers of current year ISA subscriptions between providers, from 6 April 2024
- Harmonise the account opening age for any adult ISAs to 18, from 6 April 2024
- Digitise the ISA reporting system to enable the development of digital tools to support investors

To widen the scope of investments the government will:

- Allow Long-Term Asset Funds to be permitted investments in the Innovative Finance ISA, from 6 April 2024
- Allow open-ended property funds with extended notice periods to be permitted investments in the Innovative Finance ISA, from 6 April 2024
- Engage with the finance industry on allowing certain fractional shares contracts to become permitted ISA investments

For those measures that take effect from 6 April 2024 a statutory instrument will follow early next year.

EIS/VCT

The operation of the EIS and VCT scheme is extended from April 2025 to April 2035, continuing the availability of income and capital gains tax reliefs for investors in qualifying companies and VCTs.

Legislation will be introduced in Autumn Finance Bill 2023 to replace the existing dates within the sunset clauses of 6 April 2025 with the new end dates of 6 April 2035.

The changes would take effect in accordance with regulations made by HM Treasury. These changes are subject to domestic and international subsidy obligations being met.

Taxation

Income tax

All income tax rates and bands remain at their current levels in 2024/25.

National Insurance Contributions (NICs)

<u>Employees</u>

- The main rate of Employee National Insurance (Class 1 NICs) is being reduced by 2p from 12% to 10%, from 6 January 2024, for 27 million workers.
- This action will reward work by reducing the current 32% combined tax rate for employees (income tax + national insurance) paying the basic rate of tax to 30%.
- Employees will benefit from January, as their employers make changes to their payroll system.
- The Lower Earnings Limit – the point at which employees start to receive NI credits - has been frozen at £6,396, in line with last year's approach. This supports low income working individuals by maintaining their access to NICs credits, without having to pay NICs.
- Individuals will continue to be able to pay voluntary Class 3 NICs to help fill gaps in their National Insurance record to qualify for the State pension, exactly as before.
- The Class 3 rate will also be frozen at £17.45 per week for 2024/25.

Self employed

- The main rate of Self-employed National Insurance (Class 4 NICs) is being reduced by 1p from 9% to 8% from April 2024, for around 2 million people. This takes effect on 6 April 2024.
- From 6 April 2024, self-employed people with profits above £12,570 will no longer be required to pay Class 2 NICs, but will continue to receive access to contributory benefits including the State Pension.
- This is a tax simplification that effectively abolishes Class 2 NICs by removing the requirement for self-employed people to pay.
- Those with profits between £6,725 and £12,570 will continue to get access to contributory benefits including the State Pension through a National Insurance credit without paying NICs, as they do currently.
- Those with profits under £6,725 and others who pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension, will continue to be able to do so. The weekly rate they pay will be frozen at £3.45 for 2024/25, rather than rising by CPI to £3.70.
- The Small Profits Threshold - the point at which the self-employed start to receive National Insurance credits - has been frozen at £6,725, in line with last year's approach. This supports low income working individuals by maintaining their access to contributory benefits, without having to pay NICs.

Dividend allowance

Reduces from £1,000 to £500 on 6 April 2024. Dividend tax rates remain the same at 8.75% in basic rate band, 33.75% in higher rate band and 39.35% in additional rate band (and 39.35% for discretionary trusts).

Capital gains tax

Annual exemption reduces from £6,000 to £3,000 on 6 April 2024 (a maximum of £1,500 for discretionary/interest in possession trusts – shared between all settlor's trusts subject to a minimum of £600 per trust).

CGT rates remain as they currently are:

- 10% for any taxable gain that doesn't fall above the basic rate band when added to income and 20% on any gain (or part of gain) that falls above the basic rate band when added to income
- For residential property gains these rates increase to 18% and 28% respectively
- Discretionary/interest in possession trustees pay at the higher rates (20%/28%)

Inheritance tax

No changes were announced in the Autumn Statement. All rates and tax free bands remain at current levels in 2024/25.

Simplifications for trusts and estates

From April 2024 trustees and personal representatives of estates will no longer have to report small amounts of income tax to HMRC and taxation of estate beneficiaries will be simplified, as shown below:

- Trusts and estates with income up to £500 will not pay tax on that income as it arises
- The £1,000 standard rate band (effectively basic rate band) for discretionary trusts will no longer apply
- Beneficiaries of UK estates will not pay tax on income distributed to them that is within the £500 limit for the personal representatives

Please do contact us if you have any questions on how any of the above may impact you.