Autumn Statement 2023 overview

We've summarised the key points relating to pensions and investments announced by the Chancellor in the Autumn Statement on 22 November 2023. Updates have been made to the 2024/25 table of allowances and rates, following the Scottish and Welsh budget announcements on 19 December 2023.

Pensions

Abolition of lifetime allowance

The government will legislate for the removal of the lifetime allowance in the Autumn Finance Bill. The Bill will cover the taxation of lump sums and lump sum death benefits, the application of existing protections as well as the tax treatment for overseas transfers, transitional arrangements and reporting requirements. The Chancellor has confirmed the implementation date for these changes is 6 April 2024, but has not indicated when the Bill will be published. However HMRC has published a policy paper on the abolition of the LTA today, which covers how the abolition will affect:

- Individuals receiving lump sums or lump sum death benefit payments,
- Individuals who have or intend to apply for lifetime allowance protections, lump sum protections and who have a protected low pension age,
- Benefit crystallisation events, and
- Individuals who transfer their funds to QROPS

Individuals receiving lump sums.

From 6 April 2024, authorised lump sums and lump sum death benefits will be tested against a new Lump Sum and Death Benefit Allowance set at £1,073,100 (or higher where a valid LTA protection is held). Individuals will not pay tax on lump sums taken if the cumulative value does not exceed this threshold. Any lump sum in excess of this new allowance will be taxed at the recipient's marginal rate of tax.

The maximum tax-free PCLS or tax-free element of an UFPLS will be subject to a new Lump Sum Allowance set at £268,275 (or higher where a valid LTA protection is held or a scheme-specific lump sum entitlement applies). Any PCLS or UFPLS will also count towards the overall tax-free limit of £1,073,100.

The policy paper confirms that the tax-free element of trivial commutation lump sums, winding-up lump sums and small lump sums will **not** be deducted from the new thresholds – although the individual must have some available threshold to be able to take any of these lump sums.

The policy paper also introduces a new payment type – the Pension Commencement Excess Lump Sum (PCELS) which is taxed at the individual's marginal rate. This means that when taking a lump sum from a pension arrangement, some of it could be a tax-free PCLS and the rest could be made up of a PCELS i.e. taxable.

Individuals receiving lump sum death benefits.

Where a member dies under the age of 75 and a lump sum death benefit is paid to:

- Qualifying persons, it'll count towards the deceased member's Lump Sum and Death Benefit Allowance and any excess will be taxed at the beneficiary's marginal rate of tax, or
- Non-qualifying persons, it'll count towards the deceased member's Lump Sum and Death Benefit Allowance and any excess will be taxed at basic rate. But if the payment is made outwith the two-year period where currently a special lump sum death benefit charge would apply, this charge will continue to apply.

Taxation of beneficiary drawdown and annuities

The government has confirmed that individuals will still be able to receive the benefits currently tested under BCEs 5C and 5D (designating beneficiary funds into drawdown or annuity respectively, where the member was under the age of 75 upon their death), and be excluded from income tax, maintaining the current treatment. This is a welcome reversal of the previous proposals that suggested that tax may start to apply to these payments from 6 April 2024.

Applying for lifetime allowance protections

Eligible individuals have until 6 April 2025 to apply for Fixed Protection 2016 and Individual Protection 2016.

The other changes ensure those with:

- valid lump sum protections retain their right to a higher Lump Sum Allowance
- valid LTA protections retain their right to a higher Lump Sum Allowance and also Lump Sum and Death Benefit Allowance.
- valid enhanced protection have the maximum tax-free part of any serious ill health lump sum or lump sum death benefit limited to the value that could have been paid on 5 April 2024, with marginal rate tax on the excess.
- A protected pension age below 50, where they take their benefits before NMPA have their Lump Sum Allowance and Lump Sum and Death Benefit Allowance reduced by 2.5% for every year between the first relevant BCE and the date they reach NMPA.

Benefit crystallisation events

Due to the abolition of the Lifetime Allowance from 6 April 2024, all Benefit Crystallisation Events will be removed and a reduced number of new Relevant Benefit Crystallisation Events (RBCEs) will be introduced.

The RBCEs are the payment of relevant lump sums and lump sum death benefits.

Individuals who transfer their funds to QROPS

A new 'overseas transfer allowance' will be introduced for transfers to QROPS, which will be equal to the level of an individual's Lump Sum and Death Benefit Allowance (set at the current level of the Lifetime Allowance of £1,073,100).

Where the total value of an individual's transfers from registered pension schemes in the UK, or non-UK relieved schemes, exceeds this new allowance the excess will be chargeable to the Overseas Transfer Charge (set at 25% of the amount over the allowance).

Individuals will no longer need to have some LTA available in order to receive payments of lump sums and lump sum benefits from a relevant non-UK pension scheme. Member payment charges will include paying marginal rate tax on lump sums and lump sum death benefits where those payments have been made from funds that received UK tax relief.

Other Changes

There are several other proposed changes have been announced although with no supporting detail and more information will be provided on these once the full draft legislation is published. These include:

- Transitional rules for previous Benefit Crystallisation Events suggest that if an individual has already exhausted 100% of their Lifetime Allowance, then they will have no Lump Sum Allowance or Lump Sum and Death Benefit Allowance under the new regime.
- For others, a standard transition calculation (STC) will reduce their respective allowances and we await confirmation of the specific calculation process that is to be followed for this purpose.
- There are new provisions covering valuation of pre-April 2006 benefits in payment.
- Scheme-specific lump sum protection will reduce the Lump Sum Allowance by 25% of the lump sum and arising pension rather than the full amount of the scheme-specific lump sum paid.
- Special rules for Stand Alone Lump Sums (SALS) for those with Primary and Enhanced Protection.

Autumn Statement Pension Reforms 2023

The government also published a paper called Autumn Statement Pensions Reform 2023 where they set out next steps to progress the Mansion House Reforms:

- Providing better outcomes for savers,
- Driving a more consolidated market, and
- Enabling pension funds to invest in a diverse portfolio

The paper also sets out some consultations the government is proposing to carry out (e.g lifetime provider model – also referred to as 'pot for life'), and further papers it plans to release, including a review of Master Trusts 5 years on from when the Master Trust regulations came into force.

Reduction in surplus repayment charge for DB schemes

The authorised surplus repayment charge will also be reduced from 35% to 25% from 6 April 2024.

Digitisation of Relief at Source (RAS) – delay

The government, following discussions with industry, has decided to delay the digitisation of RAS pensions tax administration from April 2025 to April 2027 at the earliest.

Investments and tax

National Insurance

Class 1 employee national insurance contributions will decrease from 12% to 10% from 6 January 2024.

From 6 April 2024, self-employed individuals will no longer have to pay Class 2 national insurance contributions and their class 4 national insurance contributions will fall from 9% to 8%.

ISAs and Child Trust Funds

The annual subscription limits will remain unchanged for the tax year 2024/25.

From 6 April 2024, an investor will be able to invest in more than one ISA of the same type each tax year, but this will still be subject to their total annual ISA subscription limit.

From 6 April 2024, the age for opening any form of adult ISA will be standardised at 18. Currently, it is possible to open an adult cash ISA at 16.

Currently, if an investor wishes to transfer the funds they've invested in their ISA in the current tax year to another provider, they have to transfer all of it. However, from 6 April 2024, it will be possible to effect a partial in-year transfer.

From 6 April 2024, an investor will no longer have to reapply for an existing ISA, for example where they have not made any ISA subscriptions for a complete tax year and wish to start contributing again.

Certain fractional shares will be allowed as permitted investments within an ISA and HMRC will engage with stakeholders to make this change.

The Government also announced that it is intending to digitise the ISA reporting system.

Inheritance tax

Despite all the recent speculation, no changes to IHT were announced.

2024/25 allowances and rates

	Tax year 2024/25	Tax year 2023/24
Income tax – allowances		
Personal Allowance*	£12,570	£12,570
Income limit for personal allowance	£100,000	£100,000
Marriage allowance	£1,260	£1,260
Dividend allowance	£500	£1,000
Personal savings allowance- basic rate taxpayer	£1,000	£1,000
Personal savings allowance – higher rate taxpayer	£500	£500
Personal savings allowance – additional rate taxpayer	Nil	Nil
** Reduced by £1 for every £2 of income over £100,000*		
	Tax year 2024/25	**Tax year 2023/24**
Rest of UK income tax – rates		
Basic	20%	20%
Higher	40%	40%
Additional	45%	45%
Scottish income tax – rates**		
Starter	19%	19%
Basic	20%	20%
Intermediate	21%	21%
Higher	42%	42%
Advanced (new from 6 April 2024)	45%	N/A
Top	48%	47%
Welsh income tax – rates		
Basic	Rest of UK rates apply	Rest of UK rates apply
Higher	Rest of UK rates apply	Rest of UK rates apply
Additional	Rest of UK rates apply	Rest of UK rates apply
** proposed in the Scottish Budget on 19/12/23. Still to be agreed.		

Savings rates		
Starting rate – limit first £5,000 of savings income	0%	0%
Savings rate – basic rate	20%	20%
Savings rate – higher rate	40%	40%
Savings rate – additional rate	45%	45%
Dividend rates		
Ordinary rate	8.75%	8.75%
Upper rate	33.75%	33.75%
Additional rate	39.35%	39.35%

	Tax year 2024/25	**Tax year 2023/24**
Rest of UK (including Wales) income tax - bands		
Basic rate	£37,700	£37,700
Higher rate	£37,701 - £125,140	£37,701 - £125,140
Additional rate	Over £125,140	Over £125,140
Scottish income tax – bands* **		
Personal allowance	£12,570	£12,570
Starter rate	£12,571 - £14,876	£12,571 - £14,732
Basic rate	£14,877 - £26,561	£14,733 - £25,688
Intermediate rate	£26,562 - £43,662	£25,689 -£43,662
Higher rate	£43,663 - £75,000	£43,663 - £125,140
Advanced	£75,001 - £125,140	N/A
Top rate	Over £125,140	Over £125,140
*** Proposed in Scottish Budget on 19/12/23. Still to be agreed.		

Rate applicable to discretionary trusts		
Thresholds	£500 de minimis amount	First £1,000 of income - 8.75% for dividend income or 20% for other income
Rate applicable to trusts	45%	45%
Dividend rate	39.35%	39.35%

	Tax year 2024/25	**Tax year 2023/24**
Pensions tax		
Standard lifetime allowance	Not applicable	£1,073,100
Annual allowance ****	£60,000	£60,000
Money purchase annual allowance	£10,000	£10,000
**** Reduced by £1 for every £2 of adjusted income above £260,000, to a minimum of £10,000.		
Capital gains tax		
Annual exemption (individuals and personal representatives)	£3,000	£6,000
Annual exemption (trustees)	£1,500	£3,000
Basic rate (other than residential property)	10%	10%
Basic rate (residential property)	18%	18%
Higher rate (other than residential property)	20%	20%
Higher rate (residential property)	28%	28%
Trust rate (other than residential property)	20%	20%
Trust rate (residential property)	28%	28%
Inheritance tax		
Rate	40%	40%
Nil rate band	£325,000	£325,000
Residence nil rate band	£175,000	£175,000

ISA thresholds		
Maximum investment	£20,000	£20,000
Junior ISAs	£9,000	£9,000
	Tax year 2024/25	**Tax year 2023/24**
Class 1 National insurance thresholds		
Weekly Lower earnings limit (LEL)	£123	£123
Weekly Primary threshold (PT)	£242	£242
Weekly Secondary threshold (ST)	£175	£175
Class 1 National insurance rates		
Employee contribution rates		
Below LEL	0%	0%
Between LEL and PT	0%	0%
Between PT and UEL	10%	12% between 6/4/23 and 5/1/24 10% between 6/1/24 and 5/4/24
Above UEL	2%	2%
Employer contribution rates		
Below ST	0%	0%
Above ST*****	13.8%	13.8%
***** Special rules for under 21 years old and apprentices under 25 years old		