Cantab
ASSET MANAGEMENT

Finance Bill 2023

Short summary of the draft legislation

Please note that the Finance Bill is being reviewed by Parliament before it receives Royal Assent and as such the new legislation will not be fully enacted until later this tax year but will apply retrospectively from 6 April 2023.

Pensions

Lifetime Allowance

The Lifetime Allowance (LTA) charge has been changed to 0% this tax year, with it being fully abolished on 6 April 2024.

Tax Free Cash

For those without any prior protection, the maximum tax free cash (TFC) available is the lower of 25% of the total value of your pension, or £268,275 (25% of £1,073,100).

Providing transitional protection was successfully registered with HMRC prior to 15 March 2023, the following changes apply:

Enhanced Protection:

For those with registered TFC protection, this will be capped at the TFC value on 5 April 2023. New contributions can be made from 6 April 2023 without losing this protection, but they will not generate any new tax free cash entitlement.

Fixed Protection:

Tax free cash protection up to 25% of the fixed protection amount will not be lost, even if new savings are made from 6 April 2023.

Primary Protection and Individual Protection:

These rights are not specifically mentioned in the Finance Bill, so they should continue unchanged in this tax year. Protected tax free cash rights registered as part of primary protection should continue. As usual, further contributions can be made without invalidating these protections.

Death Benefits

Lump Sum:

The 55% LTA charge on uncrystallised funds lump sum death benefits has been removed and now any excess over the LTA is taxed at the recipient's marginal rate of income tax.

Drawdown:

If the beneficiary takes the death benefits as beneficiary drawdown, any excess over the LTA will not result in a charge. The withdrawals from drawdown will either be tax free or subject to tax as per the rules on the age of the individual when they died.

Annual Allowances

- Annual allowance increased from £40k to £60k
- Adjusted income threshold for the tapered annual allowance increased from £240k to £260k (threshold income figure remains at £200k)
- Minimum tapered annual allowance and MPAA increased from £4k to £10k

Overview

For clients with transitional protection, we would recommend proceeding with caution before making any further contributions. Each client's situation will have its own level of risk/reward; however, for the most part we think it is prudent to wait until the Finance Act receives Royal Assent.

More comprehensive pension legislation will be detailed in a future Finance Bill when the rules for 2024/25 onwards are laid out, including the abolishment of the LTA. It is worth

bearing in mind that carry forward may be available to certain individuals so they would not miss out if they do not contribute this tax year.

For clients that have already taken their maximum PCLS to mitigate their LTA charge, it is worthwhile revisiting their pension arrangements to see if they could start making additional contributions. It is important to be aware of the PCLS recycling rules; however, in most cases this should not be a problem as the recycling is not pre-planned (the recent change in legislation was not expected). In addition, for most situations, it is probably unlikely the cumulative amount of additional contributions would exceed 30% of the PCLS taken.

Personal Taxation

Income tax higher-rate limit, above which income tax is charged at 45%, is lowered to £125,140 from £150,000.

Dividend allowance reduced to £1,000 from £2,000 (set to reduce to £500 in the 2024/25 tax year).

CGT annual exempt amount reduced to £6k for individuals and personal representatives and £3k for trustees (set to reduce to £3k and £1.5k respectively in the 2024/25 tax year).

Family Investment Companies

For Family Investment Companies (FICs), corporation tax increased to 25% this tax year. In almost all cases, FICs will not be eligible for the small profits rate which remains at 19% because this does not apply to 'close investment holding companies' which by definition include FICs.

As a result, this may affect planning features as FICs seem increasingly less tax efficient. Making employer pension contributions to shift money away from this structure could be a potential solution (providing the contributions are wholly and exclusively for the FIC's trade) as these would be tax deductible when calculating corporation tax and are also a tax free benefit to the director of the company.

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