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Spring Budget 2021

Government spending over the last 12 months, unprecedented in modern times, had led to even more speculation than usual about what the Chancellor may have in mind ahead of his second Budget announcement.

The headline measures announced by the Chancellor included a freezing of the personal allowance and higher threshold rate for income tax, an increase in corporation tax, and an extension of the furlough scheme.

Thankfully the impact on members, trustees and providers, and sponsors, of pension schemes, was far less onerous than feared, as the Treasury wrestles with how to fund the massive levels of COVID-19 related expenditure. It was actually a comparatively quiet Budget for pensions, although not without consequence.

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Freezing the lifetime allowance

The lifetime allowance (LTA) is the limit on the amount of benefits that can be drawn from registered pension schemes without attracting onerous tax charges. Having peaked at £1.8m a decade ago, it was then subject to several reductions, ending up at £1m in 2016. Since 2018, it has been subject to annual increases in line with the rise in the Consumer Prices Index, with the LTA currently standing at £1.073m.

Further inflationary increases were expected from April 2021, but the Chancellor has now announced the LTA will be frozen at its current level until April 2026. This will inevitably lead to more members exceeding the LTA, and larger tax charges for those that do. As this is a freeze, rather than a reduction, no protection will be offered to members to compensate for this fall in the LTA in real terms.

Because the LTA is only measured on specific benefit crystallisation events, it is likely to impact on certain members who are approaching retirement. In addition, the LTA could be exceeded on a member's death with the payment of certain lump sum benefits. It will be interesting to see if the freezing of the LTA leads to an increase in excepted group life assurance schemes, which are not registered pension schemes and so pay lump sum death benefits without reference to the LTA.

Defined contribution charges

The DWP has recently reviewed the operation of the charge cap applicable to defined contribution schemes used for automatic enrolment. It has now been announced that the government will consult, within the next month, on whether certain costs within the charge cap affect pension schemes' ability to invest in a broader range of assets. This is to ensure pension schemes are not discouraged from such investments and are able to offer the highest possible returns for savers. The DWP will also issue draft regulations to make it easier for schemes to take up such opportunities within the charge cap by smoothing certain performance fees over a multi-year period.

Is there more to come?

While we can expect COVID-19 recovery to be the focus of future Budgets, the Chancellor has revealed that the government intends to announce some consultations separately from the Budget, and will publish a Command Paper, 'Tax policies and consultations (Spring 2021)' on 23 March 2021. We await to see exactly what this focuses on.

Comment

The speculation of major changes to the pension tax regime proved unfounded - at least for this Budget. Instead, the Chancellor has followed the well-worn path of applying restrictions to one of the main tax allowances.

There was a suggestion that a freezing of the LTA was being considered ahead of the Budget, and that has been proved correct. Although it has not reduced, the freeze is a reduction in real terms, and some will now incur an LTA tax charge as a result. It seems somewhat ironic that the Chancellor is seeking to grow the economy following the pandemic, and freezing the LTA is arguably a tax on growth.

It should be remembered that this latest Budget was delayed from last autumn, and it is expected there will be a second Budget later this year. Hopefully the worst effects of the pandemic will be behind us by that point, but it may also mean the Chancellor is more focused on raising tax revenue than spending. Trustees and providers, sponsors, and members, of pension schemes, should be aware that further change cannot be ruled out.

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