Unpicking the Autumn Statement 2023

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In the weeks running up to the Autumn Statement 2023, there was the usual raft of speculation and reported ‘leaks’ as to what the Chancellor may announce. Were we to receive an additional ISA allowance? Would we see the rate of inheritance tax (IHT) reduced? Would inheritance tax legislation be removed completely?

And the result? IHT and ISA allowances were left unchanged, except for some tinkering with ISA legislation, thus proving the futility of basing any financial planning on political speculation. However, the Autumn Statement did contain some changes, including the surprise cut to National Insurance, welcome news on the State Pension triple lock being honoured, and confirmation that the Lifetime Allowance legislative framework will be removed or replaced from 6 April 2024. So, let me cover some, but by no means all, of the announcements in more detail.

National Insurance

The Chancellor announced the main rate of Employee National Insurance (Class 1) is to be reduced from 12% to 10%. Employees will not have to wait until the new tax year to benefit from this cut, as it will be effective from 6 January 2024.

While this is welcome news for many, it should be remembered that personal allowance tax bands and National Insurance limits have been frozen until 2028. This will mean many people will actually pay more tax and NI (combined) if you factor in pay increases. For instance, an individual currently on the National Living Wage of £10.42 an hour, working 35 hours a week, 52 weeks a year, earns £18,964.40 and will expect to pay £2,046.20 in tax and NI (£18,964.40 less £12,570 at 32%) in this tax year. From next year, assuming they remain on the National Living Wage, their pay will increase to £20,820.80, but the total tax and NI they will pay will equate to £2,475.20 (£20,820.80 less £12,570 at 30%).

For the self-employed, those with profits over £12,570 will no longer be required to pay Class 2 NICs, although they will continue to receive contributory benefits, including the State Pension. 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 and without paying NICs as is currently the case. Additionally, the main rate of Class 4 National Insurance will be reduced from 9% to 8% from 6 April 2024.

The final point on National Insurance is that, for those who wish to make voluntary Class 2 or Class 3 NICs, the rates will remain at £3.45 and £17.45 per week respectively. This is good news for many who wish to make up for missing years (I cover this further under State Pensions).

ISAs

As I mentioned earlier, the headline subscription limits for ISA contributions remain unchanged for 2024/25. Therefore, the adult limit will remain at £20,000 and the limit for Junior ISAs and Child Trust Funds will remain at £9,000. However, there have been some amendments and proposals to existing ISA legislation, including the following:

- Investors will be permitted to make multiple subscriptions to ISAs of the same type from April 2024.
- The government will allow partial transfers of ISA funds in-year between providers from April 2024.
- The requirement to re-apply for an existing dormant ISA will be removed from April 2024.
- The government will allow Long-Term Asset Funds to be permitted investments in the Innovative Finance ISA from April 2024.
- The government will also allow open-ended property funds with extended notice periods to be permitted investments in the Innovative Finance ISA from April 2024.
- The government intends to permit certain fractional shares contracts as eligible ISA investments. They will engage with stakeholders on the implementation.
- The government will harmonise the account opening age for any adult ISAs to 18 from April 2024.

The final point on ISAs is certainly of note for any clients that have children or grandchildren of a certain age. The current rules allow for 16- or 17-year-olds to contribute the maximum subscription to both a Junior ISA and an ordinary adult cash ISA. This opportunity will end on 5 April 2024.

Enterprise Investment Schemes (EISs) and Venture Capital Trusts (VCTs)

The government announced they will legislate in the Autumn Finance bill to extend the current sunset clause for EISs and VCTs from 6 April 2025 to 6 April 2035, which will provide certainty to investors in these arrangements.

Pensions

Unsurprisingly, given the changes announced in the Spring Budget, there was not much news relating to private pension savings. However, further to his Mansion House Statement, the Chancellor announced, under the banner of 'Pension Reforms', a package of plans that follow on from his earlier Statement. These include:

- To address the issues of small pots in the longer term, the government announced a call for evidence on reforms to introduce a 'Pot for life'. This is to allow employees the option of asking a new employer to pay into an existing pension pot following a change of employment.
- An announcement that the government welcomes the current trend of defined contribution pension fund consolidation and expects to see a market in which the vast majority of savers belong to schemes of £30 billion or more by 2030. The Financial Conduct Authority (FCA) will consult in the Spring on the next steps of the new Value for Money Framework. As part of this, schemes will be required to compare themselves against others in the market, including large scale schemes, to ensure they are delivering value for their members.
- In order to increase opportunities for defined benefit schemes to invest in productive finance while fully protecting member benefits, the government will consult this Winter on how the Pension Protection Fund can act as a consolidator for schemes unattractive to commercial providers and whether changes to rules around when surpluses can be repaid, including new mechanisms to protect members, could incentivise investment by well-funded schemes in assets with higher returns.
- An announcement that the government will also engage with the industry on proposals to shift employer incentives away from low fees towards long-term pension investment performance.

Lifetime allowance (LTA) replacement

The Budget report confirmed the government will introduce new legislation, from 6 April 2024, that will replace the existing Lifetime Allowance framework. At the time of writing this summary, we are yet to see the Finance Bill Legislation. However, we have seen a Policy Paper that clarified some of the previous Draft Legislation, and included some proposals for transitional arrangements. These include:

- Where an individual has Scheme Specific PCLS protection and they take PCLS, their Lump Sum Allowance will not be reduced by the total sum of PCLS, but by 25% of the total amount crystallised.
- Trivial commutation and winding-up lump sums will not be deducted from the new thresholds, although the individual must have available threshold in order to take those lump sums.
- The application deadline for Fixed Protection 16 and Individual Protection 16 will be before 6 April 2025.
- Those with LTA enhancements (i.e., pension credit, non-resident and overseas transfer factors) will retain their rights to higher lump sum death benefits where they became entitled to the enhancement before 6 April 2024 and have applied for the enhancement by 6 April 2025.
- A new 'overseas transfer allowance' (yes, another allowance) will be introduced for transfers to QROPS. The charge for exceeding the limit will be set at 25%.
- For benefits taken before 6 April 2024, a transitional calculation will be provided so that individuals can calculate their available Lump Sum Allowance and Lump Sum and Death Benefit Allowance.
- Following consultation, the government has confirmed that benefits currently tested under BCE 5C and 5D (beneficiary drawdown and annuity), will continue to be excluded from income tax, maintaining their current treatment.

This final point is welcome news, as the previous draft legislation suggested that beneficiary flexi-access drawdown (BFAD) and beneficiary annuities would be taxable under the new regime. There is one additional point to consider and that is the announcement from the government that 'to facilitate the transition from the LTA 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 Pensions

The subject of the triple lock guarantee has long been a topic of debate in the run up to Budget statements. However, the Chancellor announced the triple lock will be maintained, meaning that the State Pension will be uprated by the higher of the three measures in April 2024. As such, it will be uprated in line with earnings growth. This will mean an 8.5% increase to the basic State Pension and new State Pension from the start of the next tax year.

It was previously announced that the window for making voluntary NI contributions to make up for missing years between April 2006 and 2016 had been extended to April 2025. As such, it is essential that State Pension provision is reviewed where necessary over the next year, especially considering that voluntary contribution rates have been maintained at their current levels.

Summary

Except for some minor alterations to existing legislation, such as the changes to ISA rules, the Autumn Statement did not seem to contain any radical proposals that require immediate remedial action for Financial Planners before the tax year end. That said, when combined with the changes announced in the Spring Budget, there is still plenty to cogitate. For instance, the removal of the Lifetime Allowance tax charge and contribution restrictions for those with Fixed or Enhanced Protection could mean that pension contributions should be considered where previously they may have seemed poor value.

I eagerly await the Finance Bill legislation, not least to fully understand the considerations for the removal of the Lifetime Allowance and replacement legislation from next year. I will update you on this as more is made known.

Important information

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations. This information regarding taxation represents a summary of our understanding of the law at the date of its last review (December 2023). Tax treatment depends on individual circumstances and all tax rules may change in the future. Withdrawals from a pension will not normally be possible until a client reaches age 55 (57 from 2028). Different options may have different effects for tax purposes, different implications for pension provision and different impacts on other assets and financial planning.

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