

Sixty second summary

Budget 2021



The Chancellor of the Exchequer delivered his Budget 2021 speech to Parliament on 3 March 2021. The main pensions-related news was confirmation of rumours that the lifetime allowance will be frozen at its current level, but there was also foreshadowing of regulation changes to facilitate investment in illiquid assets.

Lifetime allowance

The lifetime allowance was due to increase to around £1,078,900 in April 2021, under indexation provisions introduced by the *Finance Act 2016*. Instead, it will be held at its current, £1,073,100, level until 2026.

Pensions Investment

There is promise within the 'Red Book' Budget document of consultation, within the next month, '*on whether certain costs within the charge cap affect pension schemes' ability to invest in a broader range of assets... to ensure pension schemes are not discouraged from such investments and are able to offer the highest possible returns for savers*'.¹ The Department for Work and Pensions (DWP) is to produce 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*'. The DWP has previously announced its intention to develop a multi-year approach to the calculation of performance fees.²

Other announcements


The Coronavirus Job Retention ('Furlough') Scheme will be extended, yet again, until the end of September 2021. Furloughed employees will continue to receive 80 per cent of their wages (subject to a cap) for the time not worked. Businesses will (in addition to covering the associated pension and National Insurance contributions) be expected to contribute 10 per cent of the cost from July, rising to 20 per cent in August.

The Government will increase income tax thresholds on 6 April 2021, but they will then remain frozen until April 2026. That means that the personal allowance will rise to £12,570 and—in England, Wales and Northern Ireland—the basic-rate limit will increase to £37,700, making the threshold for higher-rate tax £50,270 (the Scottish Parliament sets the higher rate threshold for non-savings, non-dividend income for Scotland).

The rate of corporation tax on profits will increase from 19 per cent to 25 per cent on 6 April 2023. Businesses with annual profits of less than £50,000 will be protected from the increase, and the effect will be tapered for those with profits between £50k to £250k.

¹ See paragraph 2.147 <assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966161/Budget_2021_Web_accessible.pdf>.

² Paragraphs 62 – 65 of *Improving Outcomes for Members of Defined Contribution Pension Schemes* (September 2020) <assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/918860/improving-outcomes-for-members-of-defined-contribution-pension-schemes.pdf>.



The decision to freeze the lifetime allowance, so soon after it began to keep pace with inflation, is further evidence of the susceptibility of pensions taxation to short-term tinkering. It seems that the Treasury has not learned from the tapered annual allowance, another ill-considered tweak, which led to a revolt by senior clinicians that left the Government floundering when the pandemic struck and it was 'All hands on deck' for the NHS. The same group of people will be amongst those most affected by the lifetime allowance freeze.