

EQUINITI

PENSION REFORM AND TAXATION

CIPFA CFO BRIEFING

LONDON - 23 JUNE 2016

Making complex things simple



Pension reform and taxation

Topics for this afternoon

- Annual Allowance:
 - Pension Input Periods aligned with tax year
 - Tapered Annual Allowance for high earners
- Lifetime Allowance:
 - Reduction to £1 million
 - Transitional Protections
- End of contracting-out
- Lifetime ISA

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Annual Allowance

- Restriction on tax favoured pension savings in a tax year
- Currently £40,000 (peaked at £255,000)
- Value of accrual in a DB arrangement (statutory basis)
- Contributions to a DC arrangement
- Measured over “pension input period”
- Possible tax charge if limit exceeded
- LGPS 50/50 section
- Carry forward and Scheme Pays

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Annual Allowance – changes from 6 April 2016

- All pension input periods aligned with the tax year
- Transitional provisions for 2015/2016 tax year
- Reduced Annual Allowance for high earners (the taper)

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Tapered Annual Allowance

- Applies for tax years 2016/2017 onwards
- Individuals with “adjusted income” greater than £150,000 will have their AA reduced
- Taper subject to income floor of £110,000 (“threshold income”)
- AA reduced by £1 for every £2 of income over £150,000 (maximum reduction of £30,000)
- No special communication/reporting requirements for those affected

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Changes to the Lifetime Allowance (LTA)

- LTA - a limit on the tax relieved benefits that can be paid to or in respect of an individual from registered pension schemes.
- Used up as an individual draws benefits, e.g. pension, lump sum
- Tax charge if overall level of benefits exceeds the LTA
- LGPS 50/50 section
- Level has changed many times (recently a downward trend)
- LTA reduced to £1 million (from £1.25 million) from 6 April 2016
- Will be increased in line with CPI from 6 April 2018
- Two new transitional protections available from 6 April 2016

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New transitional protections Fixed and Individual Protection 2016 (FP2016 and IP2016)

- When LTA decreases another form of transitional protection is produced
- Purpose is to protect benefits already accrued from a lifetime allowance charge
- FP2016 – Can protect value of benefits up to £1.25 million – no further benefit accrual allowed after 5 April 2016 or will lose FP2016
- IP2016 – can protect value of benefits as at 5 April 2016 if between £1 million and £1.25 million – further accrual possible
- Can make an interim applications for these protections now in writing - full application must be made once online system available

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End of contracting-out

- Introduction of the single tier state pension – 6 April 2016
- No more accrual of earnings-related element of the state pension
- The ability to contract-out has ceased
- Associated increase in employer/employee NI contributions

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Existing contracted-out rights

- Protections for section 9(2B) rights and GMPs will be maintained
- HMRC Scheme Reconciliation Service
- Risks of failing to reconcile:
 - Unaware of GMP liabilities
 - Increase in contact from members
 - Funding issues re GMP liabilities
 - Statutory record keeping requirements
- Treasury recommendation
- Equiniti contracted-out Reconciliation Team

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Lifetime ISA

- Announced in March 2016 budget
- Available to individuals aged 18 to 40
- Can pay contributions up to £4,000 per year
- 25% government bonus at end of tax year on all contributions (up to £4,000) paid in that tax year (does not take account of any other growth during the tax year)
- Bonus only available for contributions up to age 50
- Pensions ISA by stealth!

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Lifetime ISA

- Funds can be withdrawn:
 - for a first home* – after twelve months of opening account, and
 - for retirement – from age 60
- Funds can also be withdrawn at any time for any other purpose but:
 - the associated government bonus (and any growth on it) will be returned to government, and
 - a (possible) 5% charge will be applied to the withdrawal

* Up to a value of £450,000