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Briefing note

Budget 2015 - Take Two

The Chancellor of the Exchequer's second Budget of 2015 - the first of this new parliament – included a number of announcements in relation to the taxation of pension savings. The tapered reduction in the Annual Allowance for high earners from 2016/17 may have seemed a straightforward proposal, but the transitional arrangements, the way in which the tapering is calculated, and consequential changes to 'Pension Input Periods' are likely to induce headaches for affected pension savers.

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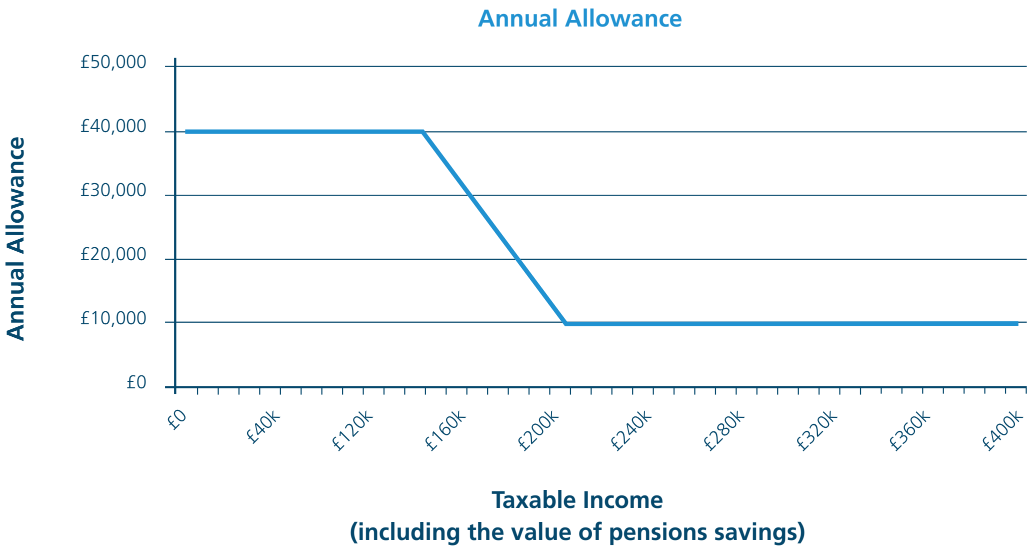
Annual Allowance reduction for high earners

Individuals with taxable annual income above £110,000 could face a significantly higher pensions-related tax bill after the Chancellor's *'Emergency Budget'* announcement.

George Osborne has said that, with effect from the 2016/17 tax-year, the current Annual Allowance (AA) of £40,000 will be tapered for anyone whose total income (including the value of pension savings) is above £150,000 – so that if total income is over £210,000, the Annual Allowance will be cut to £10,000. Individuals with income (excluding pension savings) below £110,000 should not be affected.



We understand that existing 'carry-forward' rules will continue to apply meaning that individuals can make use of any untouched AA from up to three previous tax years. The 'Scheme Pays' option is also expected to remain in place for now. Where an individual faces an AA charge above £2,000, they may therefore be able to direct their pension scheme to meet the charge without having to meet their tax bill directly from income.

However, alongside the announcement, the Treasury has issued a *Technical Note* on aligning 'Pension Input Periods' (PIPs) with tax years from April 2016. Under current arrangements, pension contributions to DC and accrual in DB schemes is effectively measured over the PIP and compared with the AA over tax year in which that PIP ends. Schemes and pension arrangements had before now been free to select their own PIP.

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> The planned transitional arrangements are complicated. PIPs that were open on Budget Day (8 July 2015) will be closed off immediately. The next PIP will run from 9 July 2015 to 5 April 2016. This could result in some arrangements having up to three PIPs ending in the 2015/16 tax year.

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A consequence of this change is that, in order to protect those with irregular savings patterns, the Annual Allowance for 2015/16 is effectively doubled to £80,000 (plus any available carry-forward), which may give scope to some individuals to make additional contributions before next April that they wouldn't previously. The Annual Allowance for the PIP from 9 July 2015 to 5 April 2016 will be £40,000. However, extra care should be taken where the 'Money Purchase Annual Allowance' applies as a result of having accessed pension savings under the new flexibilities *first announced* in the March 2014 Budget.

The Government will consult again later on whether the changes make the concept of a PIP redundant. In the meantime, please speak to your usual Barnett Waddingham consultant or contact **Bhargaw Buddhdev** on **01494 788133** or at **executivepensions@barnett-waddingham.co.uk** to discuss how these changes affect your tax planning or to speak about our *educational seminars* for individuals who may be affected by the Annual and Lifetime Allowances.

Further details of the new allowance and transitional arrangements will also be included in the Summer edition of our Current Pensions Issues newsletter.

Green Paper: Consultation on pensions tax relief

The Chancellor also used his Budget speech to launch a Government consultation on a possible radical overhaul of the pensions taxation system. In the *Green Paper*: 'Strengthening the incentive to save: a consultation on pensions tax relief', the Treasury is asking what reforms might be introduced in future. In particular, the Government has asked whether the current system 'undermines the incentive for individuals to save into a pension'.

Whilst the Government is 'approaching the consultation with an open mind', they have asked whether the current 'Exempt-Exempt-Taxed' approach could be replaced with a 'Taxed-Exempt-Exempt' approach akin to other savings vehicles such as ISAs, with the Government potentially paying top-up contributions.

	Current approach	Possible alternative
Contributions	Exempt (savings made out of pre-tax earnings)	Taxed (savings made from post-tax earnings)
Income / Growth	Exempt from personal tax	Exempt
Proceeds	Taxed as income (although 25% may be tax free)	Exempt from income tax

The Treasury has stipulated that any reforms should reflect the following key principles:

- taxation of pensions should be 'simple and transparent',
- individuals should be allowed to take personal responsibility for their retirement savings,
- the early success of *auto-enrolment* should be built upon, and
- the system should be sustainable and in line with the Government's 'long-term fiscal strategy'

The consultation closes on **30 September 2015** and we would be happy to hear from you if you have any comments you would like us to reflect in our response.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

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