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PATHways

PENSION ADMINISTRATION TECHNICAL HELP

HIGHLIGHTING PENSIONS NEWS AND LEGISLATION THAT HAS PARTICULAR RELEVANCE TO WHAT WE DO IN PENSION ADMINISTRATION

Summer Budget and Summer Finance Bill 2015

The Chancellor of the Exchequer, George Osborne, delivered his second Budget of 2015 on 8 July 2015 and the Finance Bill 2015 was presented on 15 July 2015.

Lifetime allowance

While not included in this Finance Bill, it was confirmed that the lifetime allowance will reduce from £1.25 million to £1 million from 6 April 2016. New transitional protection regimes will be introduced for individuals that require them. To apply for fixed protection members must not accrue any benefits on or after 6 April 2016. For the new individual protection members must have savings of at least £1 million on 5 April 2016. HM Revenue & Customs (HMRC) are considering the removal of deadlines for protection applications.

The lifetime allowance will increase in line with the Consumer Price Index (CPI) from April 2018.

These changes are expected to be included in next year's Finance Bill.

Annual allowance

There will be a tapered reduction in the annual allowance from 6 April 2016. This applies to individuals whose adjusted income including their pension input amount exceeds £150,000. The annual allowance will reduce by £1 for every complete £2 over £150,000, up to a maximum £30,000 reduction for individuals whose income exceeds £210,000. However, where an individual's threshold income (excluding pension input amounts) is no more than £110,000, they will not be subject to the tapered annual allowance.

Pension input periods

In order that the tapered annual allowance can operate effectively, pension input periods will be aligned with tax years from 2016/17 onwards. All open pension input periods were closed on 8 July 2015 regardless of whether a scheme currently uses the tax year or another period. The next pension input period will run from 9 July 2015 to 5 April 2016, thus splitting the 2015/16 tax year in two.

A total annual allowance of £80,000 will apply for pension input periods ending on 8 July, plus any available carry forward from earlier tax years. Of this £80,000, up to £40,000 plus available carry forward can be used in the post-Budget pension input period.

Changes to the taxation of lump sum death benefits

Where the member of a pension scheme dies after the age of 75 or before age 75 but the lump sum death benefit is not paid out within two years, the tax rate will be the recipient's marginal rate of tax instead of the current flat rate of 45%. This will apply for payments after 5 April 2016 but only where the payment is made to an individual, not a company or trust. Defined benefit lump sum death benefits not paid out within two years are also no longer to be treated as unauthorised payments.

Consultation on pensions tax relief

HM Treasury have published a consultation paper, Strengthening the incentive to save: a consultation on pensions tax relief, inviting views on how and whether the current 'exempt-exempt-taxed' system could be refined. Alternatively, the Treasury is considering replacing the current tax regime with a system under which pension contributions are taxed, but investment growth is tax exempt and pension instalments payable tax free, much like the current taxation arrangements applying to Individual Savings Accounts (ISAs).

The Government has said that any replacement system would have to be simple and transparent, allow individuals to take personal responsibility and build on the early success of auto-enrolment. The consultation ends on 30 September 2015.

Summary of other changes introduced at the Budget 2015

- Access to Pension Wise has been extended to people aged 50 and above with defined contribution pension savings and the Government will launch a marketing campaign to promote the service.
- An imminent consultation will consider options to make pension transfers quicker and smoother, including looking at early exit penalties with a view to possibly introducing a cap on these charges.
- Plans for annuity policyholders to sell their annuities on a specially-created secondary market will be delayed until 2017.
- The Government will actively monitor the growth of salary sacrifice arrangements and their effect on tax receipts.

Regulations relating to the cessation of defined benefit contracting out

On 16 July 2015, the Department for Work and Pensions (DWP) published its response to consultation, along with The Occupational Pension Schemes (Schemes that were Contracted-out) Regulations 2015 and The Pensions Act 2014 (Savings) Order 2015. The aim of these regulations is to enable the ongoing administration and to ensure that existing scheme entitlements are maintained, following the cessation of contracting out under defined benefit schemes in April 2016. DWP has also confirmed that there will be further consultation and regulations in respect of consequential changes, currently expected to be considered later this year.

Schemes will need to ensure that they are in a position to administer pension benefits in accordance with all the revised regulations from April 2016.

Changes to Pension Schemes Online and Combined Pension Statements

According to Pension schemes newsletter 70, from 27 July 2015 scheme administrators will no longer be able to submit an online return through Pension Schemes Online without a Pension Scheme Tax Reference (PSTR) and the information required when registering a new scheme or submitting an online return will change.

Separately, the DWP has confirmed that the Combined Pension Statement (CPS) service will cease at the end of the 2015/16 tax year. DWP and HMRC are working closely together to provide a transformed largely digital service that will allow individuals to access information about their National Insurance and State Pension in one place and are aiming to make it available publicly later this year.

If schemes have not yet issued CPS statements during 2015/16, delaying closure until the end of the current tax year means schemes will have the opportunity to issue a further CPS to their members. They will need to have the data exchange process finalised by the end of March 2016 and issue CPS statements before 6 April 2016.