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Whether you are a trustee running an occupational scheme or a company offering a master trust scheme or a contract-based scheme (such as a Group Personal Pension), these newsletters help to keep you up to date with elements relevant to your defined contribution (DC) scheme or arrangement.

* STOP PRESS!

REDUCTION TO THE MONEY PURCHASE ANNUAL ALLOWANCE

You may recall that in his Autumn Statement 2016 Chancellor Phillip Hammond announced that the Money Purchase Annual Allowance (MPAA) would be reduced from £10,000 to £4,000. This change was dropped from the Finance Act 2017 at a late stage due to limited parliamentary time in the run up to the general election. The Government did however announce that its policy had not changed and it would legislate for the provision at an early opportunity after the general election.

THE GOVERNMENT CONFIRMED ON 13 JULY THAT IT WILL NOW PUSH FORWARD WITH LEGISLATION TO IMPLEMENT THE REDUCTION TO THE MPAA RETROSPECTIVELY WITH EFFECT FROM THE ORIGINAL PLANNED DATE OF 6 APRIL 2017.

The MPAA applies to all individuals, normally age 55 or over, who 'flexibly access' defined contribution (also known as money purchase) pension savings on or after 6 April 2015. It limits the amount of payments that can be made each tax year into defined contribution pension arrangements to build up further pension savings, without incurring a punitive tax charge. Defined contribution (DC) benefits are 'flexibly accessed' if benefits in excess of the tax free cash sum are taken via a new flexible method introduced from 6 April 2015, i.e. taking taxable withdrawals via flexi-access drawdown or a partly taxable cash sum (Uncystallised Funds Pension Lump Sum).

In our opinion, a major shortcoming in the MPAA rules is that there is no obligation on the scheme or pension provider with whom the MPAA was triggered to inform individuals on any subsequent change to the amount of the MPAA. Individuals may not have any continuing relationship with the scheme or pension provider, e.g. if payment of a partly taxable cash sum left no remaining benefits. In addition, there had been speculation since the reduction was dropped from the Finance Act 2017 that it may be dropped entirely or the effective date pushed back.

There is therefore a real risk that individuals who have triggered the MPAA and continue to build up further DC pension savings may either be completely unaware of the reduction or believe that it would not have retrospective effect to 6 April 2017. Any payments (personal or employer) into DC pension arrangements during the tax year of more than £4,000 will incur a punitive tax charge.

Whilst employers will be keen that their employees do not unknowingly incur additional tax charges, employers will not know who may be subject to the MPAA. The MPAA may have been triggered from an employee's personal pension or from a pension arrangement with an unconnected employer.

In view of the communications gap, we believe you should consider how to make your employees aware of this issue. If you wish, we could prepare an announcement (perhaps targeted to the over 55s), or alternatively include this information as part of a wider pensions newsletter.

For more information on our services please contact Mark Futcher, Partner, Workplace Health and Wealth on:

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