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Dear Client

BUDGET 2014 – "FREEDOM & CHOICE IN PENSIONS" - AT A TAX COST!

1. Budget 2014

In yesterday's Budget the Chancellor announced - as they do - further changes and proposals to change the basis of taxation of pension schemes. **Some changes will take effect from 27th March 2014 while other proposals are subject to a consultation process. The Government hopes to enact and effect the other proposals in 2015.**

The changes are welcome in that they will certainly give more flexibility to members of all of our pension schemes. **At the same time it should be realised that utilising the extra flexibility will generate substantial tax revenue for the Government earlier!**

The current Coalition Government has confirmed that tax free commencement lump sums will continue to be available. There are no current proposals by the Coalition to make further changes to the Standard Lifetime Allowance (SLA) – the cap on tax relieved pension savings, which is set at £1.25 million from 6 April 2014.

Similarly, the Coalition is not proposing to alter the current format for tax relief on pension contributions – but is considering the possibility of allowing those aged 75 and over to continue making tax relieved contributions.

We note, however, that both the Labour and Liberal parties have indicated that they may potentially review higher rate tax relief on pension contributions and/or the Standard Lifetime Allowance should they come into Government following the next General Election.

2. Immediate Changes

The following changes are announced as being effective from 27 March 2014:-

- **Maximum pension Drawdown limit to increase**
  The maximum level of pension, calculated under the current Capped Drawdown system of withdrawal, will increase from 120% to 150% of the current appropriate Government Actuary's Department (GAD) rates. The increase for existing pensioners in capped drawdown applies for **drawdown years starting on or after 27 March 2014**.

- **Flexible Drawdown will be available to anyone who has secured pension of over £12,000 per annum**

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In April 2011 the Government introduced the facility of Flexible Drawdown whereby members could draw down on their pension funds as they wished – subject to taxation – provided they had a minimum income in fixed pension or annuity format of £20,000 per annum. **This Minimum Income Requirement (MIR) is now reduced from £20,000 per annum to £12,000 per annum.**

- **Where total pension savings are less than £30,000 these can now be extracted in one taxed lump sum**
  If only limited pension savings have accrued the Government permits the entirety to be taken in lump sum format, subject to certain conditions and with taxation levied on 75% of the value of the funds. The previous limit for determining the level of trivial pension funds was set at £18,000 and this has now been increased to £30,000 with effect from 27th March 2014.

- **Small 'pension pots'!**
  Previously if a member had up to two individual 'pension pots' worth no more than £2,000 then – regardless of the value of other pension savings – he/she could withdraw all of the funds in these pots as a lump sum, subject to certain conditions with taxation payable upon 75% of the value of the funds. The Chancellor has increased the maximum number of pots from two to three with the limit on each individual pot of £10,000.

- **Individual Protection**
  Members of our pension schemes may be aware of the potential to apply to HMRC for Fixed Protection 2014 in order to retain a lifetime allowance in respect of tax-relieved pension savings of £1.5 million after 5 April 2014. The Budget also confirmed previous proposals regarding the introduction of Individual Protection 2014 whereby individuals with pension savings valued at over £1.25 million on 5 April 2014 can retain a personal allowance of the value of their pension savings up to an overall maximum of £1.5 million whilst continuing to be able to contribute and accrue benefits.

3. General comment on the immediate changes

Since 6th April 2006, members of our SIPPS and SSASs have not been required at any time to buy an annuity.

People in some other money purchase schemes, either as a result of provider policy or because of the size of their funds, have been forced to buy an annuity. The changes made by the Chancellor yesterday will enable those people to enjoy similar freedoms and not be condemned to annuity purchase.

Everyone from now on will be able to control the pace at which pensions can be drawn. The present Government has also increased the pace at which the maximum limit on regular pension withdrawals by 25%. It should be recognised however that drawings are taken at the maximum level it is then probable that drawings at such levels will not be sustainable. In parallel, however, if there are special needs then the entirety of pension funds will be available to individuals to draw in his/her lifetime in one fell swoop or short stages provided that income tax is paid at marginal rates and the member has secure pension income (State pension, annuities or defined benefit schemes) totalling at least £12,000 per annum.

The changes coming into effect from 27th March 2014 are intended as interim measures pending the more radical proposals, scheduled for 2015 following the consultation process.

4. Proposals

The Government has also put forward major and radical proposals in a consultative paper "Freedom of Choice in Pensions" which include:-

- From April 2015, potentially changing the tax rules to allow people to access their defined contribution pension savings – such as from SSASs and SIPPs – "as they wish" from the point of retirement – **but subject to tax!**

- The review of tax charges for withdrawing all funds from a pension scheme – **currently such action would lead HMRC to levy tax charges of at least 70%**. **It is proposed that this would be replaced by simple Income Tax at a marginal rate.**

- Exploring whether the tax rules that prevent individuals aged 75 and over from making pension contributions and claiming tax relief should be abolished.

- **The introduction of legislation to remove the option to transfer from public sector schemes. This could affect, inter alia, all medical professionals!**

- Consultation on the potential removal of the option to transfer from private sector defined benefit schemes.

- **The review of tax charges upon the distribution of benefits from a pension scheme in the event of a member's death post drawdown or after age 75**. Currently if such funds were distributed after the member has drawn their lump sum entitlement and/or attaining age 75 a 55% tax charge would apply to lump sum distribution of the residual fund. **The Government is considering reducing the 55% rate.**

- An increase to the age at which an individual can take their private pension savings – from age 55 to age 57 from 2028 when the State Pension Age (SPA) will be 67 and thereafter in line with changes in the SPA.

- The Coalition Government has indicated that it will consult on ways to give equivalent treatment to Qualifying Non UK Pension Schemes (QNUPS) and to UK registered pension schemes to remove opportunities to avoid Inheritance Tax and potentially introduce draft legislation in Finance Bill 2015.

We will continue to all keep our clients updated on these proposals.

Should you have any further queries regarding the immediate changes or these proposals please do not hesitate to contact your usual contact.

Best wishes

Yours sincerely

NIGEL SLOAM & CO