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17 July 2015

Dear Client

Summer Budget

George Osborne in his 8th July 2015 Budget proposed radical changes to wealth and pensions taxation. These changes must be viewed in the context of the other dramatic taxation reforms, legislated in 2014, which permit full lifetime access to money purchase pension pots - plus the ability to leave pension savings, either tax free on death before age 75 - or subject to marginal Income Tax on death thereafter.

Key pension measures in the Budget are as follows:

1. From 6th April 2016, a reduction in the limits on tax relieved pension contributions for "high earners" – **but with some opportunities for additional contributions in the current tax year.**

2. Alignment of "Pensions Input Periods" with the fiscal year from 2016 – **and with transition measures for the current year.**

3. Confirmation of the reduction of the Lifetime Allowance from £1.25 million to £1 million with effect from 6 April 2016 – **but with opportunities for protection still available.**

4. Further possible **reductions** in the tax payable on lump sum death benefits – where a pension scheme member dies post 75.

5. A complete review of the Pension Taxation System.

6. Implementation of a secondary annuity market from 2017.

In the Technical Appendix to this letter, we summarise the announced details of the above – but the precise position will be only be known once the enabling legislation has been enacted.

The Budget proposals, plus the 2014 tax changes and other intended measures on the taxation of dividends, Inheritance Tax, – and where appropriate – the new treatment of non-domiciled persons dictate an urgent reappraisal of financial planning strategy.

As a result, urgent planning points to consider include:-

- **Pension contribution strategy for 2015/6 and thereafter.**

- **Securing the optimum available protection**

- **Pension benefit drawing strategy – in the context of other available income and liquidity sources**

- **Devising sustainable net of tax income streams**

- **Reviewing Wills and pension death benefit nominations**

We look forward to providing you with a full "menu of choice", in conjunction with your other principal advisors. If you would like to meet or have any immediate questions, please do not hesitate to contact us.

Best wishes

Nigel Sloam + Co

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TECHNICAL NOTES

1. Reduction in the Annual Allowance for "High Earners"

From 6 April 2016 the Annual Allowance (AA) – the cap on tax-relieved pension contributions – will be reduced from the present £40,000 per annum for those with "adjusted income" of £150,000 or more.

The proposed rate of reduction is £1 for every £2 by which the adjusted income exceeds £150,000 - with a maximum reduction of £30,000. For example, an individual with adjusted income of £180,000 would have their AA reduced by £15,000 to £25,000.

The 'adjusted income' definition adds-back any <u>employer</u> pension contributions to other income and **therefore persons with personal income below £150,000 p.a. could be affected by this reduction.**

The Government, however, wants to provide certainty for "individuals with lower salaries" who may have "one off spikes" in their employer pension contributions. **So, if an individual's income is, without taking account of employer pension contributions, below £110,000 they should not be subject to the reduction in the annual allowance.**

Anti-avoidance rules will apply so that any salary sacrifice arrangement set up on or after 9 July 2015 could be challenged.

2. Pension Input Periods "PIPs"

The maximum tax relief available on pension contributions in any tax year is limited to the AA for that tax year plus any unused reliefs for up to 3 previous tax years. Contributions in excess of the Annual Allowance attract tax charges. The test is carried out on contributions paid in respect of a "Pension Input Period" ("PIP"). This may not previously have aligned with the tax year and could, for example, be a calendar year. Previously, PIPs would not necessarily be for a 12 month period.

Up until now, by choosing an appropriate PIP it has been possible to pre-pay pension contributions for the next tax year and get full tax relief. **From 6 April 2016 all PIPs will align with the tax year 6 April to 5 April.**

Complex and hard to comprehend transitional arrangements are proposed for the remainder of the 2015/2016 year.

For individuals whose PIP historically has aligned with the tax year and for whom no pension contributions have been paid in the period since 6 April 2015, then there is effectively no change to the existing regime.

All other cases need to be looked at very carefully and care must be taken to check with both us and accountants as to the appropriate maximum pension contribution that can be paid for the rest of 2015/2016.

The general principle for such people is that all open Pension Input Periods were closed on 8 July 2015 and a new "PIP" created for the period to 9 July 2015 to 5 April 2016. Subsequent PIPs will be based on fiscal years. It appears from Budget circulars – which will need to be confirmed by the actual detailed legislation – that individuals could have a total Annual Allowance of up to £80,000 for the 2015/2016 fiscal year.

This Annual Allowance will be split between a) the period up to 8 July 2015 and b) the rest of the current tax year. If all of the £80,000 has not been used for the first period then any part that has not been used in the period up to 8th July 2015, can be utilised in the remaining period to 5th April 2016 – but subject to a maximum of £40,000 for this second period. In addition, any carried forward allowance from the previous 3 years could be utilised as normal.

For those in defined benefits or other non-money purchase schemes, the calculation of maximum contributions will be different and could permit higher contributions to be paid.

3. Confirmation of Reduction to Standard Lifetime Allowance.

The Standard Lifetime Allowance (SLA) – the cap on tax relieved pension savings – will reduce to £1 million from 6 April 2016. The SLA is currently £1.25 million.

The Government has indicated that it will rise in line with Consumer Prices Index from 6 April 2018.

There is still opportunity for individuals who had pension savings in excess of £1.25 million at 5 April 2014 to apply to HMRC for Individual Protection 2014 – a personalised cap on tax relieved pension savings up to a maximum of £1.5 million.

In addition, the Government have indicated that new forms of Protection may be offered to individuals who already have accumulated pension savings in excess of £1 million or those potentially will accumulate such savings without further contributions.

4. Confirmation of taxation on Lump Sum Death Benefits post 75.

Changes are being made so that where a lump sum death benefit is taxable it will be subject to the recipient's marginal rate of tax where the lump sum is paid directly from the pension scheme to an individual who is the ultimate beneficiary.

Taxable lump sum death benefits paid to an individual who is the ultimate beneficiary will no longer be subject to the special lump sum death benefits charge at 45%. They will be taxed as pension income and tax will be deducted under PAYE.

The tax charge will remain at 45% where the taxable lump sum death benefit is paid to someone other than an individual who is the ultimate beneficiary, such as a trust or a company.

5. Green Paper: Strengthening the incentive to save: a consultation on pensions tax relief

The Government has indicated that it "wants to make sure that the right incentives are in place to encourage saving into pensions in the longer term" and is consulting on whether there is a case for reforming pensions tax relief to strengthen incentives to save, offering savers greater simplicity and transparency, or whether it would be best to keep the current system.

The government is interested in views on the various options that have been suggested for how the system could be reformed. These range from a fundamental reform of the system (for example moving to a system which is "Taxed-Exempt-Exempt" like ISAs and providing a Government top-up on pension contributions) to less radical changes (such as retaining the current system and altering the lifetime and annual allowances), as well as options in between.

6. Confirmation of the Introduction of a Secondary Annuity Market.

The Coalition Government had previously indicated that it wanted existing annuity holders to have the freedom to sell their annuity income. The current Government has indicated that it will set out plans for a secondary annuities market in the autumn and has delayed the introduction of this secondary market until 2017 to ensure there is "an in-depth package to support consumers in making their decision".

IMPORTANT NOTICE

Please note that all of the above comments are based on information circulated at the time of the Budget and subsequently. Our summary reflects our understanding of these at the date of this letter. No certainty will, however, prevail until legislation has been enacted later this year and any specific consequential regulations published.

Therefore, the above letter and summary must be regarded and is intended only as a general guide to the Budget pension proposals and must not be taken as individual specific advice. Nigel Sloam & Co and associated companies cannot accept any liability for any actions taken on the basis of just this letter and summary – but we very much wish to advise you when the precise details of legislation becomes clear.

NIGEL SLOAM & CO **17th July 2015**