(PENSIONS) SUMMER BUDGET 2015

- Personal allowance to be raised to £11,000 from April 2016
- Higher-rate tax threshold to increase to £43,000
- Earnings threshold for auto-enrolment remaining at £10,000
- Lifetime Allowance to reduce to £1m from April 2016
- Annual Allowance to remain at £40,000 (except for higher earners)
- Pension Input Periods to align with tax years – additional allowance for this tax year
- The end of tax relief as we know it? Consultation launched to align this to ISA tax treatment
- A stay of execution for salary sacrifice – but Government to 'actively monitor' its impact

More changes for pension savers

The Chancellor delivered his seventh budget speech on 8th July – his first as part of a truly Conservative government – and in what we hope is not a sign of too many more things to come, once again made a number of announcements in relation to pension saving. There is the promise of further change as George also announced consultation on aspects of tax relief and the 'active monitoring' of salary sacrifice. So, was the budget good news overall for pension savers or should we all be running for cover?

Tax allowances

The Chancellor has announced increases to the personal allowance for 2016 and 2017 which are higher than previously expected (£11,000 and £11,200). Linked to this is an increase to the earnings threshold for higher rate tax payers, up to £43,000. For high earners (over £100,000) the reducing tapered personal allowance from next April will reduce to nil for earnings over £122,000. The threshold for earnings for eligibility for automatic enrolment into pensions remains at £10,000 for now. For the majority of people these announcements are good news.

In a move which will affect higher earners the most, the government has confirmed that the Lifetime Allowance for tax efficient pension saving will reduce from £1.25m to £1m from next April, with transitional arrangements to protect pre-existing savings in excess of this. From the same time, the Annual Allowance for high earners will be reduced on a £2 for £1 basis for earnings above £150,000 per year, so that this will be reduced from £40,000 to £10,000 for those earning £210,000 per year and more.

PIPs, tax years and pension contributions

Linked to this change to the Annual Allowance is the news that pension input periods (the period over which the amount of pension saving is measured against the Annual Allowance) will be aligned to tax years from April 2016.

Currently, the pension input period (PIP) does not need to be aligned to a tax year and can be set by the pension scheme trustees or a member of a personal pension arrangement. For most personal pensions the PIP is aligned to the commencement date of the policy. This can cause issues and confusion as the Annual Allowance is aligned to tax years. Currently the Annual Allowance applying to a PIP is the Allowance in force for the tax year in which the PIP ends. This is £40,000 for most pension savers for the current tax year.

Going forward, all PIPs will start and end with the tax year start and end.

Before we reach this simple state in April 2016 however, there is a hurdle to jump. Following the announcements in the budget, HMRC immediately closed all PIPs on 8th July, regardless of when they started. A new PIP for all savers commenced on 9th July and will run until 5th April 2016. This has led to transitional changes to the Annual Allowance to protect pension savings made up until the 8th July.

Effectively, the Annual Allowance doubles to £80,000 for PIPs ended on 8th July (plus any additional unused allowances from the previous three years), and is nil for the PIP commencing on 9th July. However, any unused allowance from the £80,000 can be carried forward to the new PIP, subject to a maximum of £40,000.

richards ralph employee benefits

Contact us at: Calverley House, Calverley Road, Tunbridge Wells, Kent. TN1 2TU

e: info@rreb.co.uk
w: www.rreb.co.uk
t: 01892 576 290

We suggest that high earners, those who have made significant pension contributions / accrual and those who are contributing to pension saving but who have also taken benefits from a pension scheme under the new pension flexibilities, should seek specialist advice to understand how these changes will affect them.

Tax relief – here for the long term?

Sticking with the taxation theme, the budget was also used as the springboard to launch a consultation on the future of tax relief for pensions. The Chancellor, in a move thought by many to be little more than paying lip service for a decision already made, has launched a consultation around removing upfront tax relief on pension contributions. Instead, pension saving could be made from net earnings, but with the ability for the benefits to taken out tax-free, similar to the tax treatment of ISAs. Such a move will bring in significant short-term revenues and address the current mismatch whereby 10% of earners account for nearly half of all pension contribution tax relief.

We welcome the fact that the government is consulting on these possible changes, but hope that this is a true consultation and that the Exchequer and HMRC listen and take heed of the responses. To introduce radical taxation change at a time when over 1.5m small and micro employers are going to be starting to deal with auto-enrolment and pensions for the first time could be a disaster. We are also concerned that this is a short-term tax generating solution which could ultimately weaken pension saving over the long-term.

Salary exchange was not sacrificed for tax revenues

George also announced that there will be no removal or change to salary exchange / sacrifice arrangements used for pension purposes, but that the concept will be ‘actively monitored’ to assess its impact on tax revenues. Obviously, if the current tax relief basis for contributions is changed, this will impact on salary sacrifice and could spell its end.

For more information on the Summer Budget 2015 or how the changes may affect you and your employees please get in touch with us.

July 2015

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e: info@rreb.co.uk
w: www.rreb.co.uk
t: 01892 576 290