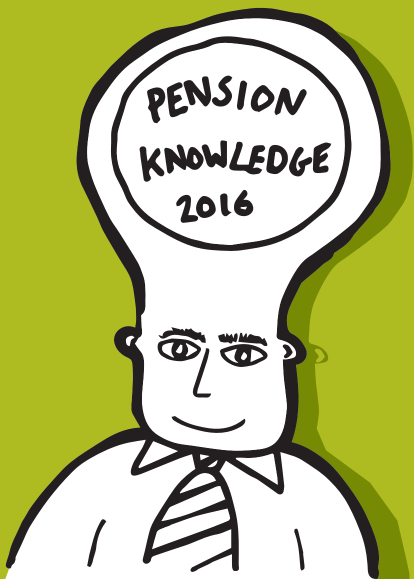
Your go to guide

Changes that come into effect from April 2016

the pension solutions group

In the giddy world of pensions, April will never come and go without seeing out some obsolete legislation and ushering in some new rules to replace it. This is our annual roundup of what you need to know, presented in a way that we hope helps to make it possible to understand.

It's true that, unlike last year, the changes that take effect from April 2016 are modest in their breadth and depth, but they are no less important and therefore are deserving of your consideration and as always, we suggest this includes input from your appointed regulated adviser.



Lifetime allowance

The Lifetime Allowance or LTA as it's known, in a bid to make it sound interesting, is going down. Again. It seems to only go down these days but then the government don't want people to benefit too much from tax-free savings and they get to decide what 'too much' is and they change their minds every year.

So from this April, the already reduced LTA of £1.25 million is being further reduced to £1 million. Or to put it another way, if, at the point you take your retirement benefits from your fund(s), that fund is bigger than £1 million, you will pay tax on the excess.

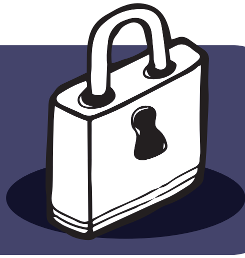
Sounds like plenty of headroom for most people but a lot of what we do is facilitate commercial property purchases and when property is involved, it's not difficult to take a modest fund and turn it into a LTA busting one in just a handful of years. So this drop isn't only a potential issue for the super-rich. You also need to bear in mind that the LTA is a ceiling that applies across all the funds you might have. So if you have a pension with us and one or more pension arrangements with other providers, those funds will also need to be factored in.

The Treasury has generally always recognised that with each change to pension legislation, there will be a group of people unwittingly caught out by it. To ensure that people aren't unfairly penalised by unfortunately timed detrimental changes, additional legislation is introduced to accommodate those who qualify for protection from the worst effects of the changes.

Where the LTA is concerned, protection has always been available, to those that qualify for it, as a way of protecting their fund from the tax bill it'd otherwise attract by the reductions in the LTA. If you aren't already registered for any form of protection and want to know if it might apply to you, or if you just want to know what it is, please ensure you speak to your financial adviser.

The actual legislation governing the next round of changes to the LTA and the protection regimes will be explained in Finance Bill 2016.

Still awake?
Then we thought you might want to know more about protection



From April 2016 there will be two new types of protection for the 2016 tax year end; Individual Protection and Fixed Protection. Both forms of protection need to be applied for before taking benefits but, other than that, there is no deadline for applying. In very simple terms, Protection is a way of protecting your pension fund from a tax charge on the excess, in the event that it breaches the (ever shrinking) LTA.

So with **Individual Protection** (IP2016) if your fund value as at 5 April 2016 is £1 Million or more, you can protect the value of your fund, as at 5 April 2016, up to a maximum of £1.25 million and contributions can continue. Furthermore there is potentially no time limit for applying.

This form of protection is not open to those who already have Primary Protection.

Fixed Protection (FP2016) on the other hand allows you to protect your LTA of £1.25 million with no minimum fund value, as long as money purchase contributions cease by 5 April 2016.

This protection is not available to those who already have Primary or Enhanced Protection. We are still awaiting confirmation of the application window, but it is possible that there will be no application deadline at all.

Watch this space.

Applying for protection

From July 2016 you will be able to apply for protection using HMRC' online services. From that point on HMRC won't be providing certificates but instead will issue a reference number.

Up until the online services become available, applications still need to be made in writing and HMRC will still respond in writing.

We are confident that the HMRC online protection application system will be smooth and efficient just like their other online services that we, as a product provider, get to enjoy frequently.

Annual Allowance Tapering

So having stayed awake for LTA, we thought we'd push our luck and talk about changes to the Annual Allowance (AA). For those that aren't sure what this is, the AA is the ceiling that the Treasury set on how much anyone can pay into their pension scheme(s) each year. This is currently £40,000 and, quite amazingly, isn't going down.

However it is worth noting the complicated fiddling about the Treasury is doing in the form of Tapering. Tapered Annual Allowance 'simply' means that from the tax year 2016/17, the AA is reduced but only for those with incomes in excess of £150,000. For a full explanation of what is included in the definition of 'income' for these purposes, you should talk to your Financial Adviser.

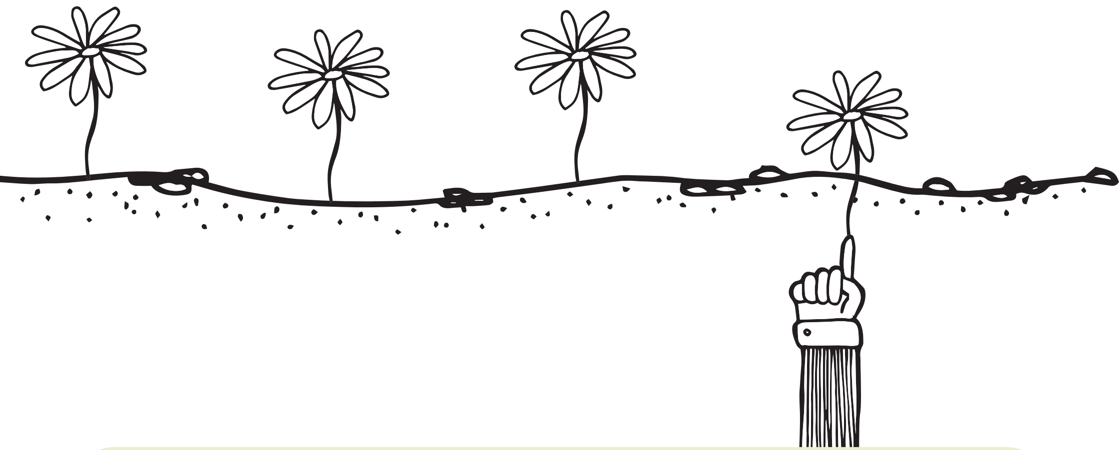
Income in excess of £150,000 is 'adjusted income' and this includes income for the year plus pension contributions (both personal and company contributions). If income does not exceed £110,000, pension contributions are ignored. It is therefore possible to have adjusted income of greater than £150,000 (when you have added in pension contributions) but income of lower than £110,000 which means tapering will not be triggered.

If income exceeds £110,000 and adjusted income exceeds £150,000 tapering is applied and for every £2 of income above £150,000, you would have your Annual Allowance (AA) reduced by £1, down to a minimum AA of £10,000. The maximum reduction to the AA is therefore £30,000 but you would need an adjusted income of at least £210,000 to trigger the full effects of tapering.

Tax on death benefits post age 75

And finally, to finish on a cheery note, we thought we'd round off the changes with the news that the current tax charge of 45% on the lump sum paid to a beneficiary is being replaced.

From April 2016 the tax will be levied at the recipient's marginal rate of income tax (normal PAYE rules apply).



So there we are, a more modest range of changes this year but things to note nonetheless.

As always, we are more than happy to chat to you and/or your adviser(s) about any aspect of these changes but we also urge you to consult your adviser at the earliest opportunity, even if you only think some of this might impact on your fund.

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