SLAUGHTER AND MAY

BRIEFING
APRIL 2015

The March 2015 Pensions Budget Supplement

A. OVERVIEW

1. This paper summarises changes announced or confirmed by the Chancellor of the Exchequer on 18th March, 2015 that impact on pension schemes or are otherwise of interest.

2. As for previous years, HMRC and HM Treasury have produced an Overview of Tax Legislation and Rates which lists all tax changes, grouping them into:

   – new or previously announced measures that are included in the Finance Act 2015, and

   – new tax changes planned for a future Finance Bill or secondary legislation.

3. Note that the proposed tax changes to be included in future Finance Bills will be made only if this Government is re-elected on 8th May, 2015.

4. The Finance Bill 2015 was published on 24th March, 2015 and received Royal Assent on 27th March, 2015.

5. The Budget documents are on the gov.uk website

B. PENSION SCHEMES

1. **Reduction in lifetime allowance from *6th April, 2016***

   The lifetime allowance ("**LTA**") is to be further reduced, from £1.25 million to £1 million. From 6th April, 2018, the Government says that LTA will be indexed in line with increases in the CPI (although whether this in fact happens depends on what happens in the General Election).

   Fixed and individual protection regimes will be introduced alongside the reduction.

2. **Removal of restrictions on buying and selling annuities**

   The Budget Statement (paragraph 2.81) announced that individuals already receiving income from an annuity would be able to assign their annuity income stream to a third party buyer in exchange for a lump sum or an alternative retirement product, provided that the original annuity provider agreed to the transaction.

   The change is intended to take effect on 6th April, 2016 and will be included in a future Finance Bill.

   A call for evidence published alongside the Budget gives further details.

   Points to note are:

   – Assignment will be permitted only for annuities held in individual names; annuities bought by trustees of an occupational pension scheme under a buy-in arrangement will not be eligible.

   – The original annuity holder will be able to use funds received from the buyer to:

     – take a lump sum cash payment,

     – transfer to a flexi-access drawdown fund, either with the buyer or an alternative provider, or

     – transfer to a flexible annuity contract, again either with the buyer or with another provider.

- The price offered will reflect the buyer's assessment of an annuity's actuarial value, transaction costs and a profit margin.

- The current unauthorised payments tax charge that applies if a lifetime annuity is surrendered or assigned will be removed; individuals will be subject to income tax at their marginal rate on the payments they receive in return for the assignment. If the annuity holder opts for flexi-access drawdown, the amount transferred into the drawdown fund will not be subject to income tax and will not count towards the annual or lifetime allowance. But the transfer payment would not be eligible for pensions tax relief nor would it trigger an entitlement to a pension commencement lump sum.

- The Government is not inclined to permit original annuity providers to buy back annuities.

- The money purchase annual allowance will be triggered when an annuity holder assigns the income stream to a third party. The allowance will apply at the date the individual receives a cash lump sum or the date that they first draw down on a flexi-access drawdown fund or receive the first payment under a flexible annuity.

- The new death benefits rules will apply to funds received by annuity holders who have assigned the income stream. If an individual sets up a flexi-access drawdown fund and dies before reaching age 75, any unused flexi-access drawdown fund left on death can be passed to beneficiaries free of tax. If an individual receives a lump sum, and any part of the lump sum is remaining on death, this will form part of their estate for IHT purposes.

- The Government says it will work with the FCA to ensure appropriate safeguards are in place for annuity holders, including extending the Pension Wise service to include guidance to annuity holders and/or introducing an obligation for annuity holders to take regulated independent financial advice.

The call for evidence, on which responses are invited by 18th June, 2015, is on the gov.uk website

3. **Increased funding for Pension Wise**

The Government announced that additional funding of £19.5 million will be available in 2015/16 for:

- Pension Wise, and

- expansion of the State Pension Statement and Pension Tracing Services.

4. **Inheritability of joint life and guaranteed annuities**

The Budget Statement confirmed that the extension of the tax treatment of death benefits to joint life and guaranteed annuities will go ahead and that the legislation will be in the Finance Bill 2015.

Draft legislation and explanatory notes were published on 19th February, 2015.

C. TAX CHANGES

1. **Income tax rates and bands 2015/2016 and 2016/2017**

The income tax personal allowance rises from £10,600 (2015/2016) to £10,800 for 2016/2017 and £11,000 for 2017/2018. The basic rate limit increases from £31,765 (2015/2016) to £31,900 for 2016/2017 and £32,300 for 2017/2018. As a result the higher rate threshold will be £42,700 in 2016/2017 and £43,300 in 2017/2018.

The following rates and bands apply for the tax year 2015/2016 and 2016/2017 (2014/2015 shown for comparison):

	RATE OF TAX (%)		TAXABLE INCOME (£)*		
	2014/ 2015	2015/ 2016	2015/ 2016	2016/ 2017	2017/ 2018
Basic	20	20	0 – 31,785	0 – 31,900	0 – 32,300
Higher	40	40	31,786 – 150,000	31,901 – 150,000	32,301 – 150,000
Additional	45	45	Over 150,000	Over 150,000	Over 150,000

* Taxable income is defined as gross income for tax purposes less those allowances and reliefs available at the taxpayer's marginal rate.

Note:

(i) *There are 3 rates of tax for dividends depending on the taxable income of the recipient:*

- *dividends otherwise taxable at the 20% basic rate are taxable at the 10% "dividend ordinary rate",*
- *dividends otherwise taxable at the 40% higher rate are taxable at the 32.5% "dividend upper rate", and*
- *dividends otherwise taxable at the 45% rate are taxable at a 37.5% "dividend additional rate".*

The effect is that, once the dividend tax credit has been added back, dividend income is taxed at the same rate as other income.

(ii) *For 2015/16 a spouse or civil partner who is not liable to income tax above the basic rate will be able to transfer up to £1,060 of their personal allowance to their spouse/civil partner.*

2. Savings income

Currently savings income (other than dividend income) up to £5,000 (the "starting rate limit") is exempt from tax. Savings income between the starting rate limit and the higher rate band is taxed at 20%.

The Government intends to legislate in a future Finance Bill to introduce a Personal Savings Allowance, to exempt from tax up to £1,000 of savings income for a basic rate taxpayer, and up £500 for a higher rate taxpayer. The allowance will not be available for additional rate taxpayers.

From 6th April, 2016, basic rate tax will no longer be withheld on interest from bank and building society accounts.

3. Trust income

The tax rate applicable to trust income remains 45% for 2015/2016. The Schedule F trust rate for dividend income remains 37.5%. The overall rate of tax on the dividend income of trusts, taking account of the income tax credit attaching to UK dividends, is 45%.

4. Capital gains tax

The annual exempt amount is increased from £11,000 to £11,100 for individuals and £5,550 for trustees. Gains above the annual exempt amount will continue to be taxable at 28% or 18% depending on the taxpayer's total income and gains.

5. Corporation Tax

The main rate of corporation tax goes down from 21% to 20% for 2015/2016.

6. Inheritance Tax

As announced on 11th February, 2013, the nil rate band remains frozen at £325,000 until 6th April, 2018.

Legislation on dividing the nil-rate band available to trusts created by the same settlor, published in draft on 10th December, 2014 as part of the Finance Bill 2015 proposals, will now be legislated for in a future Finance Bill.

7. ISA limit

The ISA limit for 2015/2016 rises from £15,000 to £15,240. Regulations will be introduced in Autumn 2015 to enable ISA savers to withdraw and replace money from cash ISAs without it counting towards their ISA subscription limit for that year.

8. Abolition of tax returns

The Government intends to abolish annual tax returns and replace them with digital tax accounts from 2020. It will begin, in "early 2016", with 5 million small businesses and 10 million individuals.

D. NATIONAL INSURANCE

1. NIC rates and bands 2015/2016

The rates of NICs for 2016/2017 are summarised in the following table (2014/2015 rates in brackets):

Earnings per annum	Employer's N.I. rate%	Employee's N.I. rate %
Below £8,060 (primary threshold)	Nil (Nil)	Nil (Nil)
£8,060 – £42,380 (upper earnings limit)	13.8 (13.8)	12 (12)
over £42,380	13.8 (13.8)	2 (2)

Note:

(i) *The rates and earnings are for the tax year beginning 6th April, 2015.*

(ii) *There is a special reduced rate for married women who opted in 1975 to pay a lower rate and to secure lower benefits.*

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