

2016 UK Pensions Tax

Last year, the Government announced yet more changes to the tax relief available on pension savings. These changes will come into force from April 2016. We've seen colleagues receiving pensions tax communications and struggling to understand what it means and what they could and should do about it. It doesn't help that the tax rules are horribly complicated and constantly changing (at the same time as changes in the pension schemes).

As a result, we're seeing some people making really bad decisions – people are leaving high quality pension arrangements because they are fearful of experiencing a tax charge – and are actually making themselves much worse off.

Current restrictions

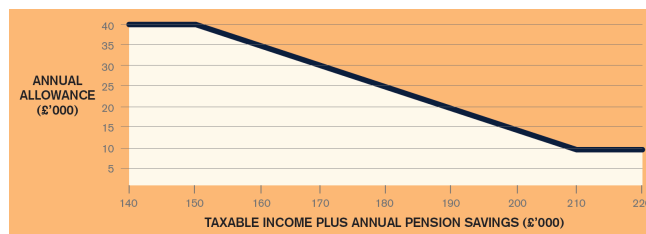
If the amount of your annual pension savings is above a certain level or if the value of your total pensions savings at retirement exceeds a certain threshold, then extra taxes may be due. Both Defined Contribution (DC) and Defined Benefit (DB) pension savings are included in the tests.

Annual Allowance – this is a limit on the increase in a member's pension savings in each year. If you exceed it, an additional tax charge MAY be due for that year. The Annual Allowance is currently £40,000 and is tested each year.

Lifetime Allowance – this is a limit on the value of a member's total pension savings over their whole working lifetime before extra tax may be due. The Lifetime Allowance is currently £1.25 million and is tested when a member first takes their benefits.

What's Changing from April 2016

Annual Allowance – some people will have a reduced Annual Allowance (between £10,000 and £40,000), depending on the amount of their total taxable income plus the value of their annual pension savings.



Lifetime Allowance – this allowance is reducing to £1 million for everyone.

Transitional arrangements (for the 2015/16 tax year) and protection regimes (for members who have already built up large pension rights by April 2016) have been introduced by the Government, and it is important that people are aware of them so they can take action! We have spoken to many employees in the sector who could keep a Lifetime Allowance somewhat greater than £1million but weren't even aware that this was possible. They were, effectively, getting ready to write an extra cheque to HMRC when they didn't need to!

What should employees do?

There are some actions people could take as a result of the pensions tax changes; for example, many members could increase their contributions before April 2016. Some members could apply for Lifetime Allowance protection based on their current value of accumulated pension savings.

The first step is for members to understand how they are likely to be affected personally by the various tax changes.

You can find more detail on the pensions tax changes by going to www.gov.uk/government/topical-events/budget-july-2015