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News letter
20-10-2014

The Taxation of Pensions Bill – what's ahead for 2015

The Taxation of Pensions Bill lays out the framework for 2015's new flexible era. There are no great surprises. But it still contains several changes from the earlier draft which are worthy of note. Here's our ten key points of interest:

55% tax charge on death

The Bill carries through on the promise to scrap the 55% tax charge on death in drawdown post 75 and on crystallised funds. The tax charge has been cut to 45% and now only applies where death occurs after the age of 75. The charge will also be levied on value protected annuities and pension protection lump sums from DB schemes.

Capped drawdown retains £40,000 annual allowance

Anyone already in capped drawdown before 6 April 2015 can continue to make contributions up to the £40,000 annual allowance. This relies upon them staying within their capped limit and not accessing the new flexibility.

Accessing the new flexibility or designating new funds for drawdown through a separate arrangement will see the annual allowance cut to £10,000. However, designating new funds for drawdown within a capped drawdown plan which is a single arrangement will keep the £40,000 limit.

Capped drawdown transfers

Where someone transfers their capped drawdown fund to a new provider they can retain their £40,000 annual allowance. If they wish to access the new flexibility following transfer they can notify the receiving scheme that the funds are to be deemed 'newly designated', i.e. be classed as flexi-access. However, this would see their annual allowance cut to £10,000.

£10,000 reduced annual allowance

A reduced annual allowance of £10,000 applies when someone accesses the new flexibility. The Bill includes three new events which would see the annual allowance cut:

1. taking out a 'flexible annuity' which allows or could be varied to allow decreases in the amount of annuity (over and above the existing rules on decreases to lifetime annuities);
2. becoming entitled to a scheme pension from a money purchase scheme where there are fewer than 11 other people entitled to payment of scheme pension under the scheme.
3. someone with primary protection taking a stand alone lump sum.

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Pension Credits

The Bill confirms that an Uncrystallised Funds Pension Lump Sum (UFPLS) cannot be paid from a disqualifying pension credit. This is a pension credit paid as a result of divorce and where the credit has come from a pension in payment and from which tax free cash has already been taken. These pension credits are fully taxable to prevent anyone getting two bites at the tax free cash cherry.

Tax free cash recycling

Rules exist to prevent someone from taking tax free cash from their pension and making a fresh pension contribution which attracts tax relief. The original draft Bill amended the current 1% of lifetime allowance figure (used to measure the amount of tax free cash paid within a 12 month period) to £10,000. This is now been cut further to £7,500.

Triviality and small pots

Further relaxation has been given to the payments under triviality and small pots rules. The minimum age under which such pensions can be taken as a lump sum has been reduced to 55 (or earlier if under ill-health rules).

Valuing pre A-Day pensions in payment

Pre A-Day pensions in payment are valued for the lifetime allowance purposes at the date of the first post A-Day Benefit Crystallisation Event (BCE). For those in drawdown this is changing from 25 x the maximum capped drawdown income, to 25 x 80% of the maximum capped drawdown. This will counteract the effects of the increase in the income limits in March 2014 from 120% to 150% GAD.

Those expecting to breach the LTA with their first crystallisation event since A-Day may wish to defer taking benefits until the new calculation method is in place. This will be effective where the first BCE event occurs on or after 6 April 2015. Originally this was intended to apply from the first BCE after the Act was passed.

Protected low pension ages

Restrictions on transferring pensions with a protected low pension age are to be lifted. It will be possible to transfer to a new scheme and continue taking income while still below age 55, without it being part of a block transfer.

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Temporary non-residence rules

Rules already exist to prevent someone becoming temporarily non-UK resident and drawing their pension benefits in large chunks to escape UK tax. For example, currently someone in flexible drawdown drawing the benefits while non-UK resident and then returning to the UK may be subject to UK income tax if they return to the UK within 5 tax years.

The Bill expands the rules to include the new flexible income options and now also includes 'flexible annuity' and 'money purchase scheme pensions'. And imposes a tax charge on the return to the UK within 5 years where withdrawals while non-resident have exceeded £100,000.

At Seven Financial we are here to help.
Please contact the team.