# Developments in pensions tax

- ACA Northern Conference
- 22 September 2017

# Agenda

- Have we moved on from last year?
- Money Purchase Annual Allowance (£4k from 2017/18)
- Tapered Annual Allowance
  - Scheme Pays in practice
  - Pension Savings Statements in practice
  - AA issues in general
- Finance Act 2017 – and no. 2 Bill
- Changes under regulations
- Lifetime Allowance increase
- On the horizon

# Have we moved on from last year?

## TAPERED ANNUAL ALLOWANCE

- Have now had full year of operation
- SATRs still being completed
- Will AA charges be picked up and paid in time?
- Any lessons to take forward?

## PENSION SAVINGS STATEMENTS

- Requirements still centre around AA usage in scheme exceeding £40k
- But are members affected by TAA finding out soon enough?

## SCHEME PAYS

- More voluntary scheme pays cases?

# Have we moved on from last year?

- Not all have been corrected
- Emerging problems when 2014/2016 protections applied after 5 April 2014/2016

Are they really taking off?

LIFETIME ALLOWANCE IMPACTS

LISAS

~~SECONDARY ANNUITY MARKET~~

# And what has happened since last year?

## FINANCE ACT 2017

- Overseas transfer charge/Other taxes on payments from overseas schemes
- Extension of taxing rights over UK source funds
- Taxation of overseas pension income paid to UK residents
- s615 schemes
- Restrictions on salary sacrifice ‘optional remuneration’ (pensions escape)

## “FINANCE (NO 2) ACT 2017”

- MPAA reduction
- Employer advice exemption improved

## REGULATIONS

- New definitions of overseas schemes
- Pensions advice allowance
- (Bridging pens
- Death info)

# Money Purchase Annual Allowance

**WHEN?**

- *If flexibly accessed  and MP conts >£10k (£4k from 4/17):*
- *Applies for any future PIPs after the trigger event - complex rules for the PIP in which benefits first flexibly accessed*

**HOW?**

- *Need to compare 'default chargeable amount' with 'alternative chargeable amount' (ie excess of MP over MPAA, plus excess of DB over residual AA)*
- *Money Purchase includes Cash Balance*
- *Complex rules for hybrids set up from 14 October 2014*

**OTHER REQUIREMENTS**

- *Information required from schemes if benefits accessed flexibly*
- *Widened PSS requirements*
- *No carry-forward*
- *Mandatory Scheme Pays ignores MPAA charge, and only available if total savings >£40k*

# MPAA - PSS complications

MP input after flexible access is tested against the MPAA, but:

- PSS sent automatically if total MP input (for 2016/17) >£10k, not if input since the date of flexible access >£10k.
- So someone who accessed towards the end of the tax year, paying 9k before flexi-access and then 2k after, will receive a 'MPAA' PSS although they won't actually have an AA charge in relation to the MP input

- There is no actual requirement for the 'MPAA' PSS to set out the post-access MP input (or even the date of flexi access).
- But the member does need these in order to calculate the charge

For 2017/18 and beyond, same issues apply but MPAA £4k.

# Tapered Annual Allowance (TAA) - recap

- Applies if threshold income >£110k and adjusted income >£150k
- Tapered AA down to £10k where adjusted income >£210k

**THRESHOLD INCOME**

(broadly) :
Taxable earnings, PLUS
'New' salary sacrifice on or after 9 July 2015, LESS
Contribution paid under 'relief at source'

**ADJUSTED INCOME**

(broadly):
Taxable earnings
(PLUS employee conts paid under net pay), PLUS
Total AA value of pension savings, LESS
Employee conts

# TAA – cliff edges (or rather - scary slopes)

- Threshold Income £115k, AA input £92k, carryforward £16k (and no new sal sac)
- So adjusted income is £207k, therefore Tapered AA of £11.5k
- Assuming 40% tax the AA charge would be £25.8k [40%*(92-16-11.5)]

- BUT Paying £5k of AVCs in the tax year would bring income below £110k so AA £40k
- AA charge would be £16.4k [40%*(92+5-16-40)]

so saving £9.4k of AA charge and having £5k in an AVC pot

## TAA – cliff edges (or rather - scary slopes)

Personal allowance withdrawal £100,000 - £123,000 (2017/18):

- allowance withdrawn at £1 for every £2 income above £100,000
- But AA charge on extra input works differently cf effective tax on extra income

# TAA – other options

Threshold Income > £110k, adjusted income £210k

AA input of £10k, no carryforward

Choice of

- Member pays £10k extra contribution – relieved of tax but creates AA charge at 45%
- £10k extra employer contribution –creates AA charge at 45%
- Or £10k extra pay - taxed at 45% (and NI charged)

# And on leaving service? Enhancements

One off enhancement likely to create AA charge

Spreading over subsequent years? – possible but then means member can't use deferred member carve out

# TAA –Scheme pays in practice

Mandatory scheme pays only available if AA charge >£2k (ignoring MPAA) and input in that scheme >£40k, and scope only relates to >£40k part

*Eg member with marginal tax rate of 45%, and £10k TAA for 2016/17*

- *PIA £50k in one scheme*
- *AA charge = £18k [= 45% x (50k-10k)]*
- *Member could at most claim MSP of £4.5k*
- *Remainder might be paid under VSP*

*But if that member has £30k carry forward and £80k of PIA in one scheme*

- *AA charge is still £18k = 45% x (80k – 30k – 10k)*
- *Member could claim MSP for all of the £18k charge*

# TAA –Scheme pays timescales -For tax year ending 5 Apr 20XX

**MANDATORY SCHEME PAYS**

- *Deadline for member election is 31 Jul 20XX + 1*
- *(although by 31 Jan 20XX + 1 they need to report on tax return whether they intend to use 'scheme pays' and the amount they wish to have paid by the scheme)*
- *Schemes must report/pay tax due by their quarterly Accounting for Tax return 31 Dec 20XX + 1 + 45 days*

10 **Amount saved towards your pension, in the period covered by this tax return, in excess of the Annual Allowance**

£ . 0 0

11 **Annual Allowance tax paid or payable by your pension scheme**

£ . 0 0

12 **Pension scheme tax reference number** - read the notes

PSTR

**VOLUNTARY SCHEME PAYS**

- *Must be included on tax return by 31 Jan 20XX + 1*
- *But also must be paid by 31 Jan 20XX + 1*
- *Later payment = interest on outstanding tax/penalties*

# TAA –PSS in practice

If tax year ends 5 Apr 20XX

- compulsory PSS due by 6 Oct 20XX
- But compulsory PSS due  only if AA input in scheme >£40k
- In some schemes lots of members will have AA somewhere between £40k and £10k due to taper
  - These need information on their PIA, probably even earlier than 6 October
  - so they can plan to pay their AA charge by following 31 Jan
  - or ask scheme to do it under VSP – which may be even earlier than 31 Jan
- And even those who get compulsory PSS might have some element of MSP/some VSP so need to decide in good time for 31 Jan

# AA - HMRC problems in general

- There have been problems with HMRC modellers, firstly not allowing input more then 3 years back
- And more recently, for 2016/17 the system is retaining 2012/13 unused AA in carryforward
  - With HMRC's 'IT Development Team'
  - The system seems to get it right for a similar case in 2017/18.

## Results

Based on your answers, in the tax year 2016 to 2017 you have £0 of unused annual allowance and no tax to pay.

| Year | Available annual allowance | Pension savings | Amount on which tax is due | Unused annual allowance |
|---|---|---|---|---|
| 2016 to 2017 | £80,000 | £80,000 | £0 | £0 |
| 2015 to 2016 period 2 | £70,000 | £30,000 | £0 | £40,000 |
| 2015 to 2016 period 1 | £110,000 | £0 | £0 | £70,000 |
| 2014 to 2015 | £60,000 | £30,000 | £0 | £30,000 |
| 2013 to 2014 | £60,000 | £40,000 | £0 | £20,000 |
| 2012 to 2013 | £50,000 | £40,000 | £0 | £10,000 |

## What was your threshold income in the tax year 2016 to 2017?

Adjusted income is your taxable income after deductions. Include pension contributions made by you, your employer or someone on your behalf.

From 6 April 2016, for every £2 over £150,000 of adjusted income your annual allowance is reduced by £1. The maximum reduction is £30,000. Use only numbers and round to the nearest pound.

## What were your pension savings in the tax year 2016 to 2017?

The savings for defined contributions and defined benefits plans are calculated differently, with defined benefits including investment growth and defined contributions including payments made by, or on behalf of the member. Investment income is not included.

Include all savings for 6 April 2016 to 5 April 2017. Use only numbers and round to the nearest pound.

# Finance Act 2017

**TAXATION OF FOREIGN PENSIONS/ SCHEMES/ TRANSFERS**

- *Including where funds have had UK tax relief, or foreign pensions and lump sums are paid to UK residents*
- *Provisions to prevent new 's615 schemes'*
- *Provisions to align the tax treatment for registered pension schemes whether based in or outside the UK.*

**QROPS OVERSEAS TRANSFER TAX CHARGE**

- *25% charge unless eg QROPS is in same country as transferee OR*
  - *QROPS in EEA (with transferee in EEA) OR*
  - *QROPS = OPS sponsored by the transferee's employer*

**BIK ON SALARY SACRIFICE**

*Restrictions on salary sacrifice 'optional remuneration'*

*Pensions escape but some life cover impacted*

# Finance (No. 2) Act 2017 – currently a Bill

**MPAA REDUCTION**

- *Same rules and requirements as at present but £4k MPAA from 2017/18*

**EXEMPTION FROM TAX ON RELEVANT PENSIONS ADVICE***

- *Advice financed by employer for current/former/prospective employee*
- *Limited to the first £500 in the relevant tax year, per employment*
- *Relevant pensions advice must be available either:*
  - *To all the employees/employees at a particular location*
  - *To all employees/at a particular location who meet age threshold of 5 years before NMPA/protected age (or who meet ill health retirement condition)*

**i.e. advice or information on a person's pension arrangements, as well as more general advice relating to the use of a person's pension funds*

# Other changes under regulations – from 6 April 2017

**AMENDED DEFN OF QOPS/ QROPS**

- *no longer a requirement to use at least 70% of a member's UK tax-relieved funds to provide an income for life.*
- *Possibly some schemes relying on that definition may have lost QOPS status*

**PENSIONS ADVICE ALLOWANCE (PAA)**

- *Up to £500, no more than once in a tax year, max three occasions*
- *MP arrangements or hybrid (ie better of MP or DB) arrangements*
  - *DB members with MP AVCs can take the PAA from MP;*
- *Must be used for fully regulated retirement financial advice**
- *Scheme can choose not to offer PAA facility*
- *Trustees expected to do 'basic due diligence' to minimise chance of member breaching limit*

**ie advice in respect of the person's financial position, including their pension arrangements and the use of their pension funds*

# LTA issues

**LTA INCREASE**

- LTA has been at £1m since 6 April 2016
- But will go up on 6 April 2018 based on CPI increase to September 2017
- Rounded up to the next £100
- We will know amount in October 2017
- expect a rise of £20k-£30k

**KNOCK ON EFFECTS**

- And what about all the adjustments to LTA protections to deal with the past falls in LTA?
- How will they cope with the gradual increase now?

# On the horizon

Impact of DWP proposals

Social Care Green Paper

Gig economy and self-employed

Further tax changes?

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