

ACA session 9 September 2014

Karen Goldschmidt

The Taxation of Pensions Bill – another step towards the 2015+ pensions tax regime

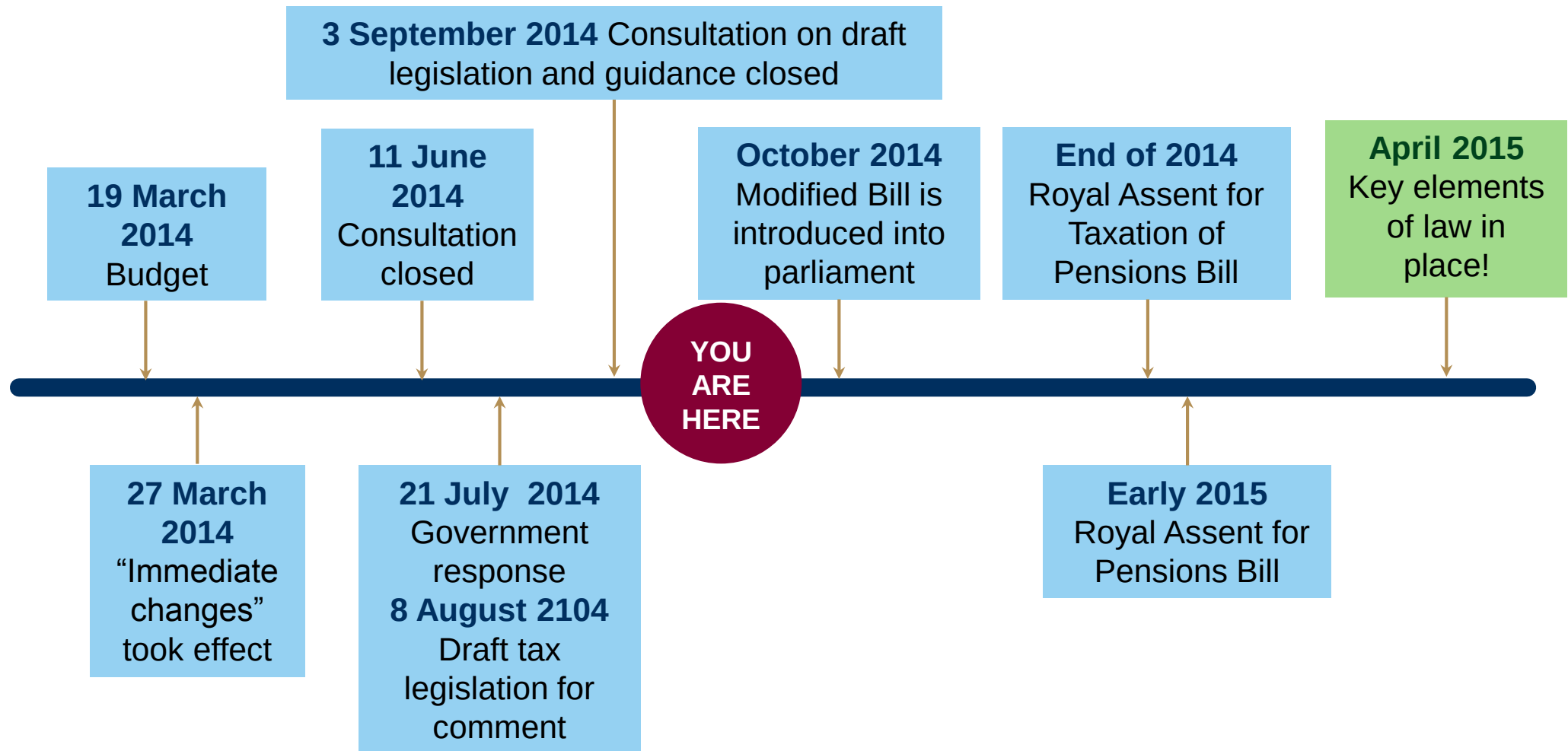
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~~Bridge~~ ~~Pension Scheme Bill~~

Tax rules: “Money Purchase” means

Cash Balance and Other Money Purchase (traditional DC)
and operates per member per arrangement

Timeline



Creating the new regime: still to come

Next draft of Taxation of Pensions Bill

- 55% tax on some death lump sums
- AA disclosure
- Tax deduction process
- International aspects

In other law soon

- Extended statutory rights to transfer out
- Advice before DB transfer
- OMO?
- Guidance guarantee

Further in the future

- Increase NMPA in future
- Consultation on direct DB flexibility

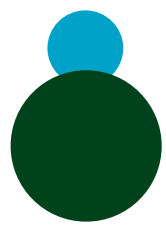
The flexi-access drawdown (plus PCLS) and ..

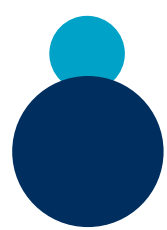
For full immediate cash out

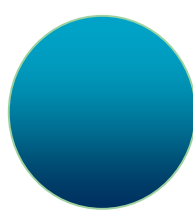
Uncrystallised
MP pot

Uncrystallised
MP pot

Uncrystallised
MP pot

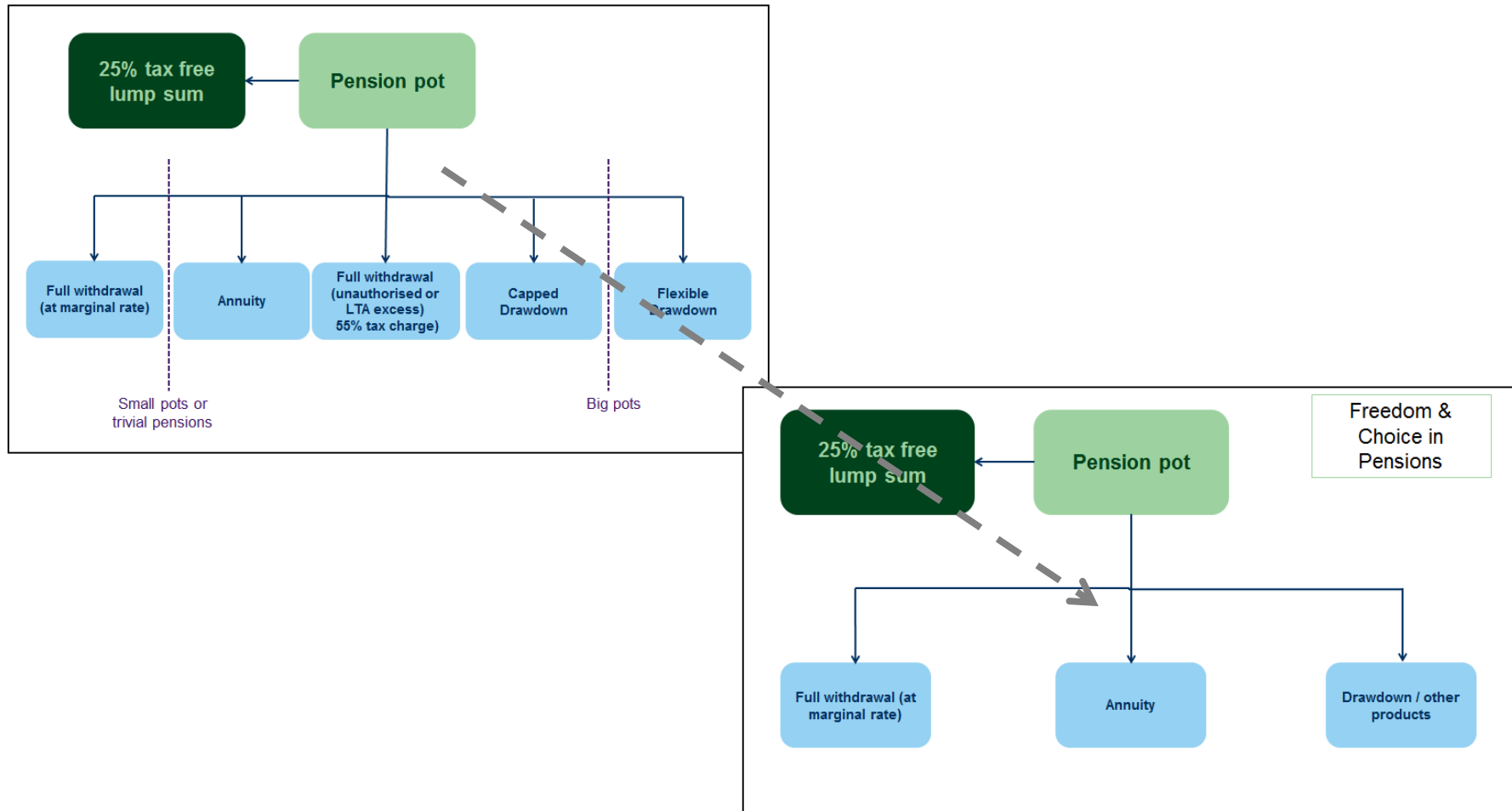
 **PCLS:** tax free
FADD: designated
but undrawn

 **PCLS:** tax free
FADD: 100% drawn
immediately, taxed

 the uncrystallised
funds pension
lump sum
UFPLS:
25% tax free

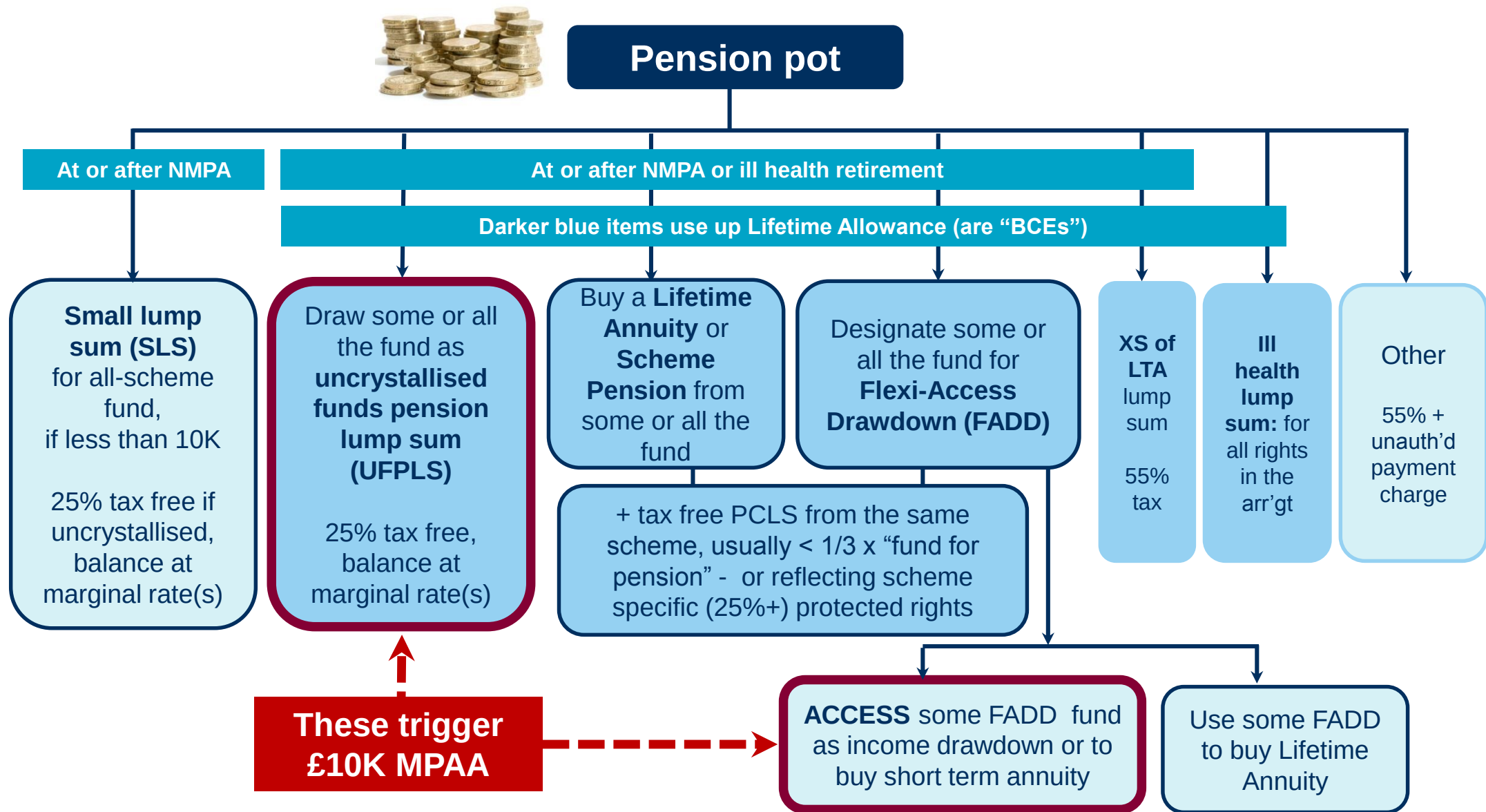

 (Taxed) pension instalments
or short term annuity
 or lifetime annuity purchase
as and when

Expected new landscape for MP from April 2015



Proposed new landscape for a pure MP scheme

Key change is no size/income barrier to cash-out – and anti-abuse



The new £10K MP Annual Allowance applying in parallel to £40K AA after a Trigger Event

measure specifically to stop salary-churning through a pension scheme

Trigger Event for the £10KMPAA to start

- **UFPLS**
- **Accessing taxed income from a FADD**
- If using “primary protection with £375K LS rights”: drawing a stand alone lump sum
- Holding (old) capped drawdown and exceeding the cap
- From 6 April 2015, if have designated funds for (old) flexible drawdown



AA TRIGGER EVENT IN ANY SCHEME
MAY IMPACT ALL THE MEMBER'S
FUTURE MP SAVING.

The new 10K MP AA

Mr X's Trigger Event was in May 2016. His PIPs are tax years.

In 2017/18 (having £5K carry forward unused AA to bring into the tax year):

If MP PIAs total £11K and DB PIAs nil: *Two tests – because his MP PIA is more than £10K*

Standard AA calculation: (11K + 0) is less than (40K + 5K = 45K) no default chargeable amount

New MP calculation 11K exceeds 10K £1K alternative chargeable amount

The larger applies **£1K**

If MP PIAs total £9K and DB PIAs total £28K: *No special action – his MP PIA is less than 10K.*

Standard AA calculation: (9K + 28K = 37K) is less than (40K + 5K = 45K) no default chargeable amount

If MP PIAs total £11K and DB PIAs total £28K: *Two tests – because his MP PIA is more than 10K.*

Standard AA calculation: (11K + 28K = 39K) is less than (40K + 5K = 45K) no default chargeable amount

New MP calculation 11K exceeds 10K £1K alternative chargeable amount

The larger applies **£1K**

If MP PIAs total £11K and DB PIAs total £37K: *Two tests – because his MP PIA is more than £10K.*

Standard AA calculation: (11K + 37K = 48K) is more than (40K + 5K = 45K) £3K default chargeable amount

New MP calculation 11K exceeds 10K £1K alternative chargeable amount

The large applies **£3K**

Hybrid eg DB with DC underpin or overpin

so DB + MP protected rights underpin, MP + DB reference scheme underpin

New flexibilities? Depend on which scale “bites” at retirement

AND

If the £10K MP AA applies: special anti-abuse adjustments

Sample of the guidance and the law

“You then arrange these into as many differently-constituted sets of hybrid arrangements as possible, including a set with none of those arrangements within the set (that is an empty set). So for example, if there are two such hybrid arrangements, there are four possible differently-constituted sets.”

“ ...where AAIAA is the (actual) amount of input amount A for the arrangement”

ACA request: genuine active hybrid arrangements abound and should be completely exempt from extra calculations and from **extra disclosure**

Cashing out small benefits due or in payment, from 6 April 2015

Timing of
Small Lump Sums and
Trivial Commutation Lump Sums

To be allowed from NMPA (usually 55)*
rather than 60

Dependants' pensions after death
(TCLSDB)

Unexpected IMPROVED limit £30K,
BUT only for deaths after Royal Assent
[and age condition if member died before 6.4.2011]

Other changes to
Trivial Commutation Lump Sum

RIP?
All the old complexities but now only
when the member just has DB in the scheme

ACA request: Apply latest conditions for all TCLSDB – and simplify TCLS

*but not earlier on ill health retirement

I asked for £50K gross cash-out, I got ...

UFPLS and FADD cash outs *might* be subject to OTM1 default tax code deduction

If I decide to take a taxable payment **£50,000** (gross) from the scheme and OTM1 is used

20% on $(1/12 * 31,865 = 2,655)$	531	OTM1 immediate
40% on $(1/12 * (150,000 - 31,865 = 9,844))$	3,938	tax deducted:
45% on the remainder $(50,000 - 2,655 - 9,844 = 37,500)$	6,875	£21,344 (42%)

what I get in hand from the scheme is £28,556

What is the actual tax due? Depends on other taxable income in the tax year	Actual tax due	Refund due to me
If my other total taxable income exactly equals my personal allowance 20% on 31,865 and 40% on $(50,000 - 31,865)$ So my net of tax position should be £36,373	£13,627 (27%)	£7,717
If my other total taxable income in the tax year is £25,000 20% on $(31,865 - 15,000)$ and 40% on $(50,000 - (31,865 - 15,000))$ So my net of tax position should be £33,373	£16,627 (33%)	£4,717

Overpayment in many cases. Recovery gradual over the balance tax year using personal tax code, if other income; or by personal application with an easy form? Underpayments need to be dealt with through personal returns
SLS and TCLS might just have basic rate tax code deducted.

Of approaches acceptable to HMRC, OTM1 least worst ?
easy to specify and to explain to member

Scheme Specific Lump Sum Rights (SSLSR)

the special HMRC “PCLS limit” greater than 25% reflecting a 5 April 2006 position



Pensions shake-up is tax blow for bosses

10 August 2014

“HUNDREDS of thousands of directors, executives and members of small workplace pension schemes could see the value of the tax-free cash they can take from their pots slashed — unless they take urgent action.”

A member with SSLSR in a scheme might

- want flexibility but his scheme does not offer it
- want cash-out but his scheme only allows UFPLS, with only 25% tax free
- be in a buy-out policy with no new options and no longer appropriate for him

If he transfers out, he will lose his SSLSR unless by “block transfer”

“Block transfer” is also a block on easy DC scheme reorganisation.

Temporary window if planning to draw by Oct 2015

ACA request: Please remove the “block transfer” requirement
But measures would then be needed for appropriate information transfer

Permissive override to scheme rules

“The **trustees/managers** of the scheme can pay one of these* to a member in respect of the member’s Money Purchase Arrangement”

“despite any provision of the rules of the scheme (however framed) prohibiting the making of the payment”

*Payments from FADD designated funds
a payment of drawdown pension
purchase of a short-term annuity
a payment of dependants’ drawdown pension
purchase of a dependants’ short-term annuity

an uncrystallised funds pension lump sum

ACA request:

1. Require agreement by the party which pays expenses
2. Subject to such constraints on terms as the trustees determine
3. Give a power to make reasonable charge

Can pensions taxation get any more complicated?

227 ZA(1)(a)(i)



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