

TOLLEY'S PENSIONS TAXATION 2014-15

Excerpt from Chapter 1,
Introduction:
The Post 2014 Revolution



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THE POST 2014 REVOLUTION

[1.16]

The 2014 Budget set out radical changes to the UK pensions taxation system. Some of the changes were immediate and others will take effect from April 2015. Yet more measures are proposed to take effect from April 2015 after a process of consultation. These are massive changes and of great importance to all who have pension rights in UK registered pension schemes.

It was rumoured in the run up to the Chancellor's Budget speech that some rabbit or other would be plucked from George Osborne's hat that would take everyone by surprise. And so it turned out as towards the end of his speech George Osborne said the following words that forever changed the nature of the UK pensions benefits system:

'We will completely change the tax treatment of defined contribution pensions to bring it into line with the modern world.... Pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, anytime they want. No caps. No drawdown limits. Let me be clear. No one will have to buy an annuity....'

'And we're going to introduce a new guarantee, enforced by law, that everyone who retires on these defined contribution pensions will be offered free, impartial, face-to-face advice on how to get the most from the choices they will now have.... What I am proposing is the most far-reaching reform to the taxation of pensions since the regime was introduced in 1921.'

The detailed changes are set out in Chapter 4, Chapter 12 and elsewhere as appropriate and the first legislative stages will be a Pensions Tax Bill as announced in the 2014 Queen's Speech.

The 2014 Queen's Speech

[1.17]

The centrepiece of the 2014 Queen's Speech was cited as ground-breaking pensions reform. The following is adapted from the accompanying press announcement with our comment in brackets.

The reforms are claimed to be the biggest transformation in our pensions system since its inception, and (it is claimed) will give people both freedom and security in retirement. By no longer forcing people to buy an annuity (this must be at least the fourth time that government have announced the abolition of the compulsion to buy an annuity), we are giving them total control over the money they have put aside over their lifetime and greater financial security in their old age.

It's all part of a wider mission to put power back in the hands of the people who have worked hard – trusting them to run their own lives. At the same time there will be sweeping reforms to workplace pensions to give employees more certainty about their income in retirement (this is a reference to defined ambition schemes).

THE LEGISLATIVE FRAMEWORK TO COME

[1.18]

The Pensions Tax Bill will give effect to the changes to the pension tax rules as announced at the 2014 Budget, which give greater freedom and choice over how to access defined contribution pension savings. The consultation process (see Chapter 4) was over a short timescale and the first draft of the

Pensions Tax Bill may be published as early as August 2014. This may therefore be before the publication of this book but after its preparation has been finalised.

The main elements of the Pensions Tax Bill will be:

1. To introduce a new tax framework that removes the restrictions on how individuals can access their defined contribution pension savings, and allows them full access subject to their marginal tax rate.
2. To remove the restrictions placed on how people are able to access their defined contribution pension savings, and to give them freedom and choice as to how to access their defined contribution pension fund.
3. To introduce anti-avoidance provisions, preventing individuals taking advantage of the new flexible arrangements for tax avoidance purposes.

The new legislation is being introduced in a huge hurry. It is seen as a potential vote winner and the government want it legislated for well in advance of the May 2015 general election. This will undoubtedly lead to gaps and unforeseen consequences. It is even now (July 2014) recognised that there are some 'interesting' tax planning opportunities unless they are prevented from the outset. For example, the ability of the over 55s to 'restructure' their income through salary sacrifice and then take benefit via a pension scheme with tax and NICs being avoided.

The Private Pensions Bill will introduce defined ambition pension schemes which it is claimed will encourage greater risk sharing between parties and allow pension savers to have greater certainty about their retirement savings.

The Bill will make provision for a new legislative framework in relation to the various categories of pension scheme. It will establish three mutually exclusive definitions for scheme type based on degrees of certainty in the benefits that schemes offer to members. Two of these will sound remarkably familiar.

- (a) Defined Benefit (DB) schemes;
- (b) Defined Ambition (shared risk or DA) schemes; and
- (c) Defined Contribution (DC) schemes.

These correspond to different types of promise – from a full promise about retirement income, a promise on part of the pension pot or income, or offering no promise at all.

The Private Pensions Bill will enable 'collective schemes' that pool risk between members and potentially allow for greater stability of pension outcomes. The Bill will contain a number of measures relating to the valuation and reporting requirements for collective schemes.

DC pensions – where individual scheme members bear the risks of longevity, inflation and investment returns – currently dominate the UK pensions market.

DB pensions – where the employer bears the risks by promising a pension usually related to salary – are in decline.

The Private Pensions Bill will enable the introduction of DA pensions, occupying a space between DC and DB pensions that will share more of the risk between parties.

And given the new flexibilities for members of Defined Contribution schemes. In order to help people make decisions that best suit their needs the Private Pensions Bill will provide that everyone with DC pensions will be offered free and impartial guidance via a 'guidance guarantee', on the range of options

available to them at retirement. The Private Pensions Bill will legislate so that all individuals with a DC pension in the UK approaching retirement will be offered guidance.

Depending on the outcome of the HM Treasury *Freedom and choice in pensions* consultation, the Private Pensions Bill will allow the Department for Work and Pensions (DWP) to either bring forward legislation to implement a ban on all transfers out of private sector DB schemes or not (see Chapter 12).

It will also allow legislation to ban transfers out of unfunded public sector DB schemes – again see Chapter 12.

In the remainder of this book we will look at the UK pensions taxation system as it currently works in detail and how it continues to evolve. The purpose of this first chapter has been to set out how it is that we arrived where we are now and indeed that there is a continuing journey. How that journey might further continue is considered in the final chapter of this book.

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