

NEWSLETTER – NEW DRAWDOWN LIMIT

You may be aware that The Government announced on 5 December 2012 that it would increase the maximum income which drawdown pensioners can receive from their capped drawdown pension fund from 100 per cent to 120 per cent of the value of an equivalent annuity.

Draft amendments to legislation were published in January 2013 with the intention of implementation within the Finance Bill 2013.

The 20 per cent increase will apply for all drawdown pension years starting on or after 26 March 2013

The HMRC has issued the following guidance:

Who is likely to be affected?

Individuals (drawdown pensioners) above the minimum pension age (normally 55 and over), who have a capped drawdown pension fund or a dependants' capped drawdown pension fund under a registered pension scheme or Individuals younger than 23, who are entitled to receive a dependants' drawdown pension.

General description of the measure

All drawdown pensioners will be able to take an annual pension from their registered pension scheme up to 120 per cent of the amount of an equivalent annuity.

Policy objective

This measure supports the Government's objectives for a fairer tax system by providing more flexibility for drawdown pensioners.

Current law

Pension rule 5 in section 165 Finance Act (FA) 2004 imposes a limit on the amount of drawdown pension that the drawdown pensioner may receive from their capped drawdown pension arrangement in any year. There is an equivalent limit for dependants in pension death benefit rule 4 in section 167 FA 2004.

The current limit in both cases is 100 per cent of a value called the "basis amount". The basis amount is defined in Schedule 28 to FA 2004 and in the Registered Pension Schemes (Relevant Annuities) Regulations 2006, SI2006/129.

The basis amount is the rate of income, which would be available if an individual of the same age as the drawdown pensioner were to use the whole of their drawdown pension fund to buy themselves a level single-life annuity without a guaranteed term. The basis amount is also commonly referred to as "the amount of either an 'equivalent annuity' or a 'comparable annuity'".

The value of the basis amount is calculated in accordance with tables prepared by the Government Actuary's Department (GAD). Two tables prepared by GAD are used for this purpose: one for individuals aged under 23 and one for individuals aged 23 and over.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to increase the maximum income which a drawdown pensioner with a capped drawdown pension fund can choose to receive. The maximum for a drawdown pension year will go up from 100 per cent of the basis amount to 120 per cent of the basis amount.

Summary of impacts (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
Exchequer impact	Negligible	Negligible	Negligible	Negligible	Negligible
	The measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure will impact around 500,000 drawdown pensioners during the scorecard period. As a result of the change they will be entitled to receive pensions up to 20 per cent higher than would otherwise have been the case.				
Equalities impacts	The measure will have no impact on Equality and does not affect any protected characteristics.				
Impact on business including civil society organisations	The measure is expected to have a negligible one-off impact on businesses. It is not anticipated that there will be additional ongoing business costs as a result of this measure. The measure will have no impact on civil society organisations.				
Operational impact (£m) (HMRC or other)	Tax on drawdown pensions is accounted for under PAYE procedures. It is not anticipated that HMRC will incur any additional costs implementing this change. Some routine consequential changes to published guidance will be made as part of business as usual. The measure has no other impacts on the public sector.				
Other impacts	Small firms impact test: the business impacts of this measure are on drawdown providers. It is not believed that any businesses involved will fall within the criteria of a small firm for this test. Other impacts have been considered and none have been identified				

As we receive further information on this matter we will of course keep you informed

Gill Baynes

Director

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