

TAXATION OF PENSIONS ACT 2014 – DEFINED CONTRIBUTION SCHEMES WITH EFFECT FROM 6 APRIL 2015

The Budget changes were delivered on 19 March 2014

This included radical changes to be implemented from April 2015 proposing the introduction of flexible benefits to those with membership of a defined contribution scheme and aged over 55 along with a change to the taxation of some death benefits.

The Taxation of Pensions Bill underwent a consultation process and was given its first reading on 14 October 2014, a second reading on 29 October and then received Royal Assent on 17 December 2014; this is now referred to as the Taxation of Pensions Act 2014.

The implementation of the changes is of course subject to the scheme rules although there will be included a permissive scheme rules override in connection with certain benefit payments.

Defined benefit schemes will not benefit from the changes on flexibility and will continue to be limited to the provision of a regular income.

Changes to Tax Charge on Crystallised Funds

Currently, if an individual fully or partly crystallises funds and then dies, the remaining crystallised funds are taxed at 55%. It is only the uncrystallised funds that are paid tax free.

This changes with effect from 6 April 2015. For those who die before age 75 the crystallised funds will be paid tax free and for those who die after age 75 the tax is reduced to 45%.

The changes to the tax charges can be simplified as:

Funds	Currently	From 06/04/2015
Uncrystallised	Lump sum tax free	Lump sum tax free (Subject to Lifetime Allowance Limits)
Crystallised Death before Age 75	Lump sum 55% tax	Lump sum tax free (Whether taken as a single lump sum or drawdown over time)
Crystallised Death after age 75	Lump sum 55% tax	Lump sum 45% tax (If taken as drawdown the beneficiary's personal tax rate will apply)

In addition, the funds may be nominated to any "beneficiary" (not just to a financial dependant). However, we are still awaiting further clarity from HMRC on the definition of "beneficiary".

Pension Flexibility

HMRC have confirmed that:

"From April 2015, the new rules around pension flexibility will allow more individuals to opt to take one-off or irregular payments rather than receiving a fixed regular income from their pension fund. There will be a number of options around how pension funds can be accessed. This could be one or more payments a year for a number of years, several payments a year over a shorter timeframe or the full value of the fund could be taken in one payment.

Regardless of the form in which these payments are taken, they will be taxed as pension income and the normal PAYE rules will apply to them.

The York Hadleigh Group

Registered Office : 1663-1669 London Road, Leigh on Sea, Essex, SS9 2SH Tel : 01702 480400 Fax : 01702 481700 E-mail : mail@fbayh.com

The York Hadleigh Group consist of the following independently owned Companies providing specialist services

Foden Baynes Associates Limited Registered in England: 3937873

York Hadleigh Limited Registered in England: 4422005

FBA Actuarial Services Limited Registered in England: 05406551

Alfa Trustees Limited Registered in England: 02826804

TAXATION OF PENSIONS ACT 2014 – DEFINED CONTRIBUTION SCHEMES WITH EFFECT FROM 6 APRIL 2015

Pension Flexibility: Flexible access

People will be counted as flexibly accessing their pension if they receive any of the following on or after 6 April 2015:

- A payment from a flexi-access drawdown fund, including a payment from a capped drawdown fund that would breach the cap
- An uncrystallised funds pension lump sum (UFPLS)
- A payment under a flexible annuity contract
- A payment of a money purchase scheme pension where the scheme has fewer than 11 other pensioner members and they became entitled to the scheme pension on or after 6 April 2015
- A stand-alone lump sum from a money purchase arrangement where the individual was entitled to primary protection but not enhanced protection, that is where Circumstance A in article 25B(2) of the Taxation of Pension Schemes (Transitional Provisions) Order 2006 applies.

In addition any person, who had a valid notification for flexible drawdown before 6 April 2015, will be deemed to have flexibly accessed their rights at the start of 6 April 2015."

Trivial Commutation and Small Pots lump sums

From April 2015 only defined benefits (DB) pension schemes will be able to make trivial commutation payments. For such schemes the current 'basic rate' PAYE regime will remain unchanged so that pension providers will continue to deduct tax at the basic rate from these lump sums before paying them.

The tax treatment of payments of small pots lump sums will continue unchanged. They will continue to be payable from both money purchase and DB pension funds and pension providers will continue to deduct tax at the basic rate from these lump sums before paying them.

Inheritance Tax

On the question of the impact on Inheritance Tax the HMRC have stated:

"For inheritance tax purposes, payments made at the discretion of the pension provider are not included in the deceased's estate because there is no absolute control over the payment to be made. Where a payment is not discretionary and is made to the estate or to a named beneficiary as of right, the sum is included in the estate and is therefore liable to inheritance tax, although it will be exempt if it is paid to a surviving spouse of the deceased. The Taxation of Pensions Act does not change this treatment.

At present anyone can receive a lump sum death benefit and the Taxation of Pensions Act does not change that. However, the Act introduces a new type of beneficiary, a nominee, who may receive a pension death benefit. The Act does not change the fact that it is for pension providers to determine the type of death benefits they want to pay, a lump sum death benefit or a pension death benefit, or possibly a combination of the two. This discretion means that the benefits remain exempt from inheritance tax even if subsequently the administrators decide that the pension death benefits should be paid to a nominated beneficiary."

Gill Baynes (Director)

Disclaimer

The information given within this newsletter is based upon our understanding of legislation. It does not constitute legal or financial advice. This is information and not advice and therefore, we cannot accept responsibility for any disadvantage arising from action taken as a consequence of this newsletter.*

***"we" shall constitute the York Hadleigh Group, Foden Baynes Associates Limited, FBA Actuarial Services Limited, York Hadleigh Limited, Alfa Trustees Limited and Windsor Actuarial Consultants Limited plus and including all subsidiaries, Directors and employees.*

The York Hadleigh Group

Registered Office : 1663-1669 London Road, Leigh on Sea, Essex, SS9 2SH Tel : 01702 480400 Fax : 01702 481700 E-mail : mail@fbayh.com

The York Hadleigh Group consist of the following independently owned Companies providing specialist services

Foden Baynes Associates Limited Registered in England: 3937873

York Hadleigh Limited Registered in England: 4422005

FBA Actuarial Services Limited Registered in England: 05406551

Alfa Trustees Limited Registered in England: 02826804