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Budget update 2016

Following the Treasury's late confirmation, anticipated wide-ranging reforms to pensions tax reliefs and allowances were not included in the Budget 2016. Pre-Budget speculation about curbs to salary sacrifice arrangements and tax-free cash on retirement, also turned out to be wide of the mark.

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The current tax regime will therefore continue in its present form, for now at least, including the upcoming reduction in Lifetime Allowance (LTA) and the tapering of the Annual Allowance (AA). Nevertheless, with the introduction of a new Lifetime ISA, and a number of other pensions-related measures, there is certainly still much to discuss following Budget 2016.

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What are the changes?

The 2016 Budget included a smattering of pensions-related points, but the key announcements were about changes that are not happening (at least, not yet):

- As previously announced by the Treasury, Budget 2016 did not include wide-ranging reforms to pensions tax relief.
- Salary sacrifice arrangements continue to be under review by the Government, although salary-sacrificing in relation to pensions contributions, health-related benefits and childcare costs may continue.
- Pension Commencement Lump Sums will still be payable without incurring income tax charges, despite speculation to the contrary.

Nevertheless, the Government has dipped a toe in the water by offering an alternative tax structure for later-life saving via the Lifetime ISA.

Whilst many of the precise details will be formalised after consultation, the Treasury has proposed that from April 2017:

The bonuses will be available on savings made up until age 50. Individuals will be able to access their savings reasonably flexibly, but will only keep the government top-ups if the savings are used to fund the purchase of a first house, or are locked away for retirement savings (which can be accessed from age 60). A 5% surcharge will apply for early withdrawal where not used to fund a first house purchase.

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Other pension aspects of the 2016 Budget included:

- Employer contributions to public sector pension schemes will rise, reflecting changes to the valuation discount rate, and as widely expected.
- Pensions tax rules will be amended to further extend recent pension flexibilities allowing, for example money purchase pensions in payment to be paid as a 'trivial' lump sum if all pension savings are worth less than £30,000.

Employers will now be able to pay for employees to receive advice in the workplace up to the value of...

without paying tax or employer NIC for the benefit in kind. This is up from the previous amount of £150.

The Government will also consult on whether savers can access defined contribution pension funds before age 55 in order to fund retirement advice.

- The Government will launch a 'Pensions Dashboard' so that individuals can view all their pension savings in one place, and which will be available from 2019.
- The Money Advice Service (MAS), The Pensions Advisory Service (TPAS), and Pension Wise will be merged into two advisory bodies focussing on pensions and money.

There were no announcements of further changes to LTA and AA which is good news, hopefully allowing the system to settle and for members to understand the tapered AA being introduced from 6 April 2016. These were announced last year and affect high earners.

With effect from 6 April 2016, the current AA of £40,000 will be tapered for anyone whose total income (including the value of pension savings) is above £150,000 – so that if total income is over £210,000, the AA will be cut to £10,000. Individuals with income (excluding pension savings) below £110,000 should not be affected.

What does this mean for trustees?

The changes announced in Budget 2016 are unlikely to have an immediate or direct impact on the trustees of occupational pension schemes. In time however, we may see some consequential issues arising which include:

- If the Lifetime ISA proves popular, the Government may extend pensions tax reforms, perhaps revisiting the possibility of a 'Pensions ISA' mooted in last year's Green Paper.
- Take-up rates for the Lifetime ISA could have an effect on auto-enrolment rates (in spite of the expectation that Lifetime ISAs will not include employer contributions).

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> Trustees should watch this space for further developments in case of further developments in relation to tax relief.

What should trustees do next?

Trustees should watch this space in case of further developments in relation to tax relief. In the meantime, there are plenty of other matters for trustees to address, including the abolition of salary-related contracting-out from 6 April, incorporating The Pension Regulator's (TPR) guidance on Integrated Risk Management, and adopting the new requirements relating to pension scheme accounting.

These issues, together with increased focus from TPR on governance matters, may prove a good opportunity to consider your training and development needs as trustees, and whether further training on taxation for example may be beneficial. This is particularly important in light of TPR's recent analysis of the trustee landscape which showed that around 62% of lay trustees of smaller schemes, and 31% of trustees of larger schemes, did not meet TPR's knowledge and understanding standards.

With 6 April 2016 fast approaching, trustees should also engage with employers to ensure higher earners are fully briefed on their options regarding the impending reduction in the LTA.

HMRC has recently confirmed the process for applying for either or both of the new LTA protections – Fixed Protection 2016 (FP16) and Individual Protection 2016 (IP16) – to protect pension savings when the LTA reduces to £1 million from 6 April 2016. There is no time limit for registering for FP16 or IP16. Applications can be made online only. The new online self-service will be available for use from July 2016.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

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