# Summer Budget – July 2015

This note is intended to provide a high level overview of the tax changes. The details of the changes are complicated and are not fully covered here.

The Chancellor, George Osborne, delivered his first all-Conservative Budget on 8 July 2015. The pensions-related headline was the announcement of a wide-ranging consultation on how pensions tax relief might be altered to further encourage saving for retirement. The Chancellor also confirmed that the Annual Allowance will be reduced for those with total earnings over £150,000 from 6 April 2016. To facilitate this, HMRC will align all individual pension input periods with the tax-year from the same date. In addition, the Lifetime Allowance will reduce to £1million (from £1.25million) on 6 April 2016.

This notice sets out a summary of the changes. More specific communications will be issued in due course once more details are available.

## Consultation on pension tax relief

The Government has published a consultation paper on how the pension tax relief system should be structured in future. Its aim is to ensure that the system incentivises individuals to take more responsibility for their pension saving to meet their retirement aspirations. The consultation explicitly mentions increased life expectancy and changes in the form of pension provision from defined benefit to defined contribution as providing the rationale for this consultation exercise.

The Government has said that it is entering this consultation with an ‘open mind’ and accepts that the current system may still best meet these aims. However, the Government could also see a system where pension contributions are taxed upfront like an ISA is, and topped up by the State. Other options in between these two extremes would also be considered.

Despite the Government’s open mind, the consultation paper does identify some concerns with the current system. For example, the cost of tax relief on pension contributions (£34bn in 2013-14) and evidence that individual’s on lower incomes are unaware of, or un-influenced by, the current tax incentives available.

The consultation sets out four principles that alternatives will be assessed against:

- simplicity and transparency,
- encouraging personal responsibility,
- building on the success of automatic enrolment; and
- sustainability.

The Government realises that there may be conflicts between these principles in practice and they may need to place more emphasis on some over others. It also accepts that if there is to be a change to the current approach then the introduction of a new system will have to proceed gradually as it would have significant implications for financing, existing DB and DC pension regimes (including the unfunded public service pension schemes) and the wider personal taxation system.

The consultation period ends on 30 September 2015.

## Annual Allowance changes

With effect from 6 April 2016, the Government is going to introduce a tapered reduction in the annual limit for tax-free pension savings. This will affect anyone with total earnings of over £150,000. The definition of earnings includes taxable income from all sources as well as the value of pension contributions made by Barratt Developments PLC on your behalf. The Annual Allowance for individuals in that category will be reduced by £1 for every £2 of earnings over £150,000, subject to a minimum Allowance of £10,000 for those with earnings of £210,000 or more. To protect those with lower earnings, but large pension savings, the reduction will only apply to individual's whose total earnings *excluding* pension contributions is over £110,000.

| Income | Annual Allowance after 6 April 2016 |
|---|---|
| Below £110,000 | £40,000 |
| £110,000 to £150,000 | £40,000, but income needs to include the value of pension contributions |
| £150,000 to £210,000 | A tapered scale reducing £40,000 by £1 for each £2 of income |
| Above £210,000 | £10,000 |

## Pension Input Period changes

To administer the tapered Annual Allowance consistently, the Government has decided that all pension input periods will be aligned with the tax year from 2016/17 onwards. For this to happen, transitional arrangements have been put in place from the date of the Budget:

- all pension input periods open on 8 July 2015 (i.e. the date of the Budget) are closed on that date, and
- a new input period will now run from 9 July 2015 to 5 April 2016.

This change could have resulted in an unintended increase in tax for some individuals. This has been avoided by introducing a one-off Annual Allowance for the 2015/16 tax year of £80,000, subject to a maximum Allowance of £40,000 permitted for the period from 9 July 2015 to 5 April 2016. This may allow some individuals to make contributions of a value in excess of the normal £40,000 limit for the current tax year.

We will be writing to individuals separately who may want to explore this option.

## Lifetime Allowance changes

In the March 2015 Budget, it was also announced that the Lifetime Allowance will reduce to £1million from 6 April 2016. Transitional protection will be available for individuals who already have pension rights in excess of £1million. The Lifetime Allowance will also now increase in line with the Consumer Price Index from 6 April 2018.