



Institute and Faculty of Actuaries Pensions, Risk and Investment  
Conference 2016  
Karen Goldschmidt 2 June 2016

# D1: The latest on Pensions Tax Relief: what does it mean for you?

DRAFT

Lane Clark & Peacock LLP Trustee Consulting Investment Consulting  
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## 2015 Consultation on pensions tax relief

*Three potential systems discussed*

	Current system	Flat rate relief	ISA-style
Contribution	Not taxed E	Taxed + Relief T+R	Taxed + Incentive? T (+I)
Investment	Not taxed E	Not taxed E	Not taxed E
Distribution	Taxed T	Taxed T	Not taxed E

25% tax free at drawing

**No change YET**  
**LISA being launched April 2017 as a**  
**"complementary" savings vehicle**

## Status quo – pro tem

6 April 2016



£10K - £40K

£1m + inflation from 2018?

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## Agenda

### Pensions tax protections and transfer projects

- Lifetime Allowance protections
- Scheme specific 2006 protections (lump sum rights, minimum normal pension age)

### Tapered Annual Allowance

- Scheme Pays rights
- Information Exchange
- Some pitfalls

### Other

- Dependant scheme pension – revised test, good news



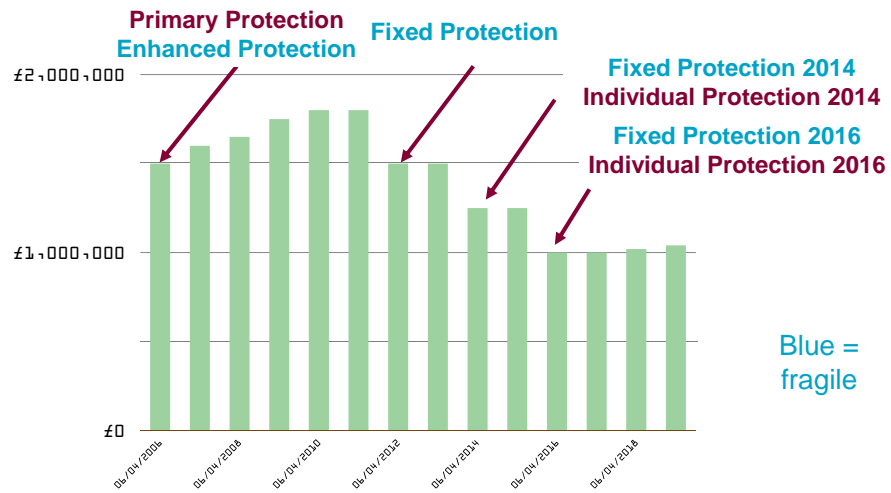
## Your client is considering...

- Winding up just one section of its DB scheme
- Transferring out
  - all the DC AVCs from a scheme to a separate scheme leaving behind just the DB
  - or maybe not just AVCs, but the on-going DC section
  - or all the DB from a scheme to a separate scheme leaving behind just the DC
- Transferring DB members from scheme of one group to another, no change of employment because a share sale

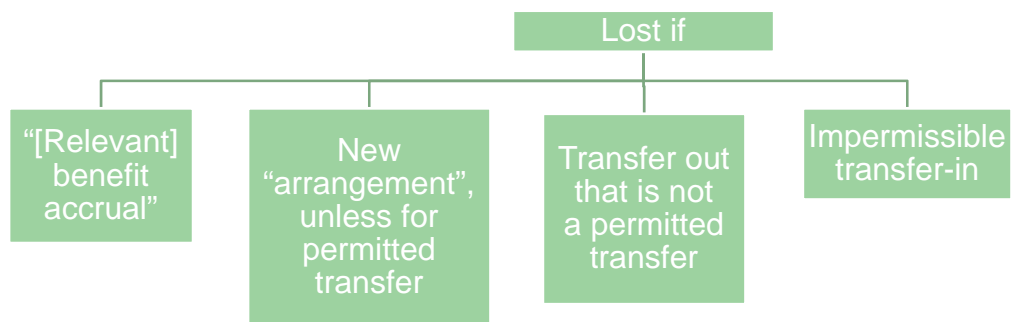
Have you considered pensions tax protections?

- No member consent = Trustee duties
- With member consent = proper information

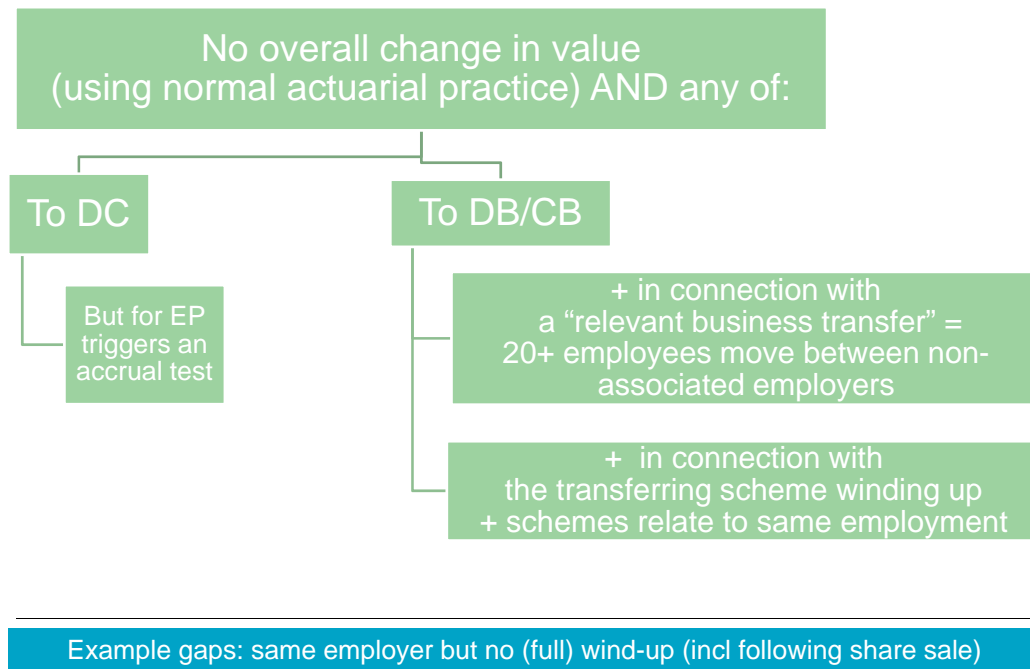
# 1. Lifetime Allowance protections



# Enhanced Protection, Fixed Protections Lost how?



## What is a permitted transfer?



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## Lifetime Allowance (LTA) charge at stake

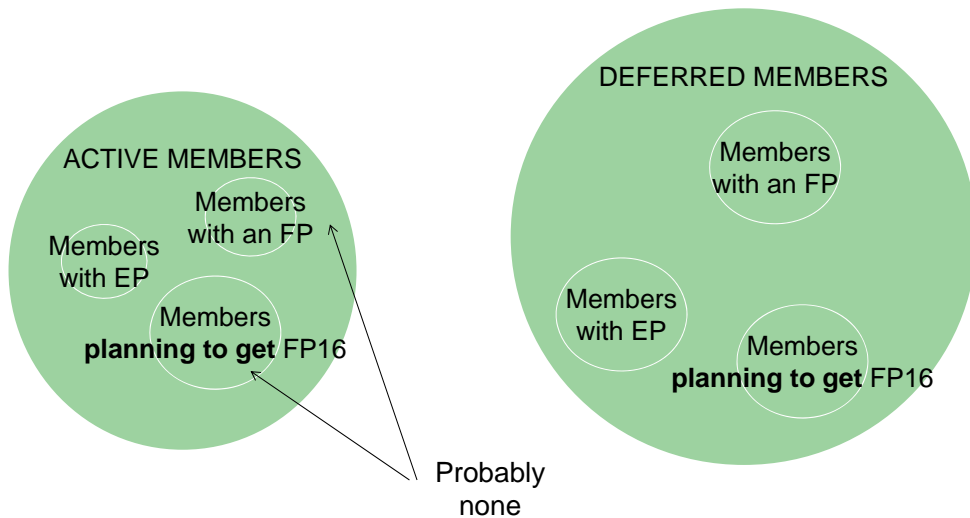
*Member has this if s/he applied and has not been disqualified*

Vulnerable Protections	Apply by	Underpinned LTA	If lost, worst case potential extra tax when LTA is £1m
Enhanced Protection	5 April 2009	Not applic	Unlimited
Fixed Protection [2012]	5 April 2012	£1.8m	£200,000
Fixed Protection 2014	5 April 2014	£1.5m	£125,000
Fixed Protection 2016	<b>NO CLOSURE but can get disqualified</b>	£1.25m	£63,000

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## Who has the protections?

*Difficult to tell .. member has this if s/he applied and has not yet been disqualified*



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## 2. Scheme specific protections: protected Pension Age/ protected lump sum rights

TEST

Member had the right under the scheme provisions at 10 December 2003 to retire below age 55 in scheme

Member's accrued right to lump sum was 25% or more of the value of his accrued retirement benefits, both as at 5 April 2006 measured under the scheme rules and through the spectacles of Finance Act 2004

OUTCOME

- Right continues authorised, in the scheme
- The protection normally reflects any fetter that applied (eg "if made redundant")
- Can apply to subsequent scheme joiners to the same category

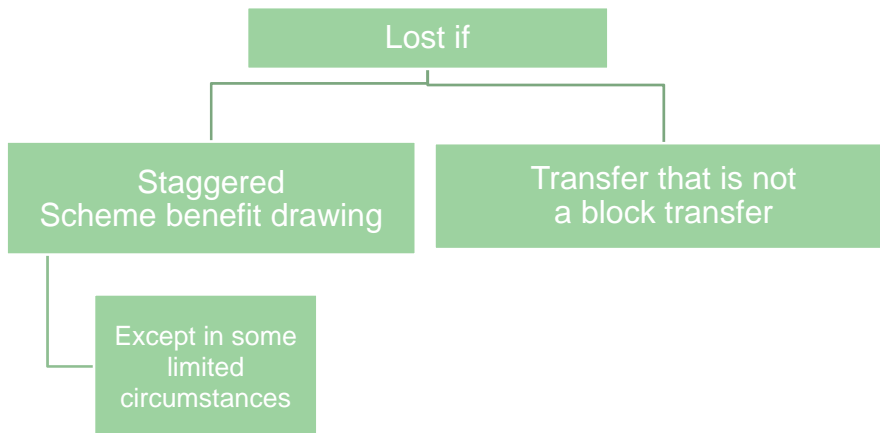
- Tax law permits PCLS of more than the standard "25% of the package"
- using a complex formula centred around VULSR and VUR
- Increasingly generous as tax law changed

...PROVIDED no disqualifying action

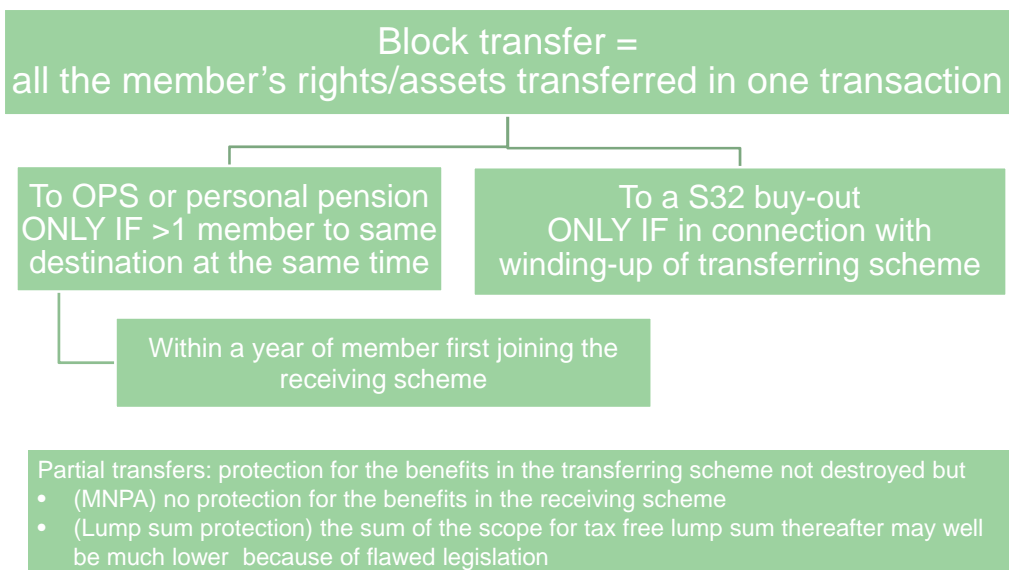
Protection is a "fact" arising from scheme provisions + situation of member at 5 April 2006

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## Scheme specific protection



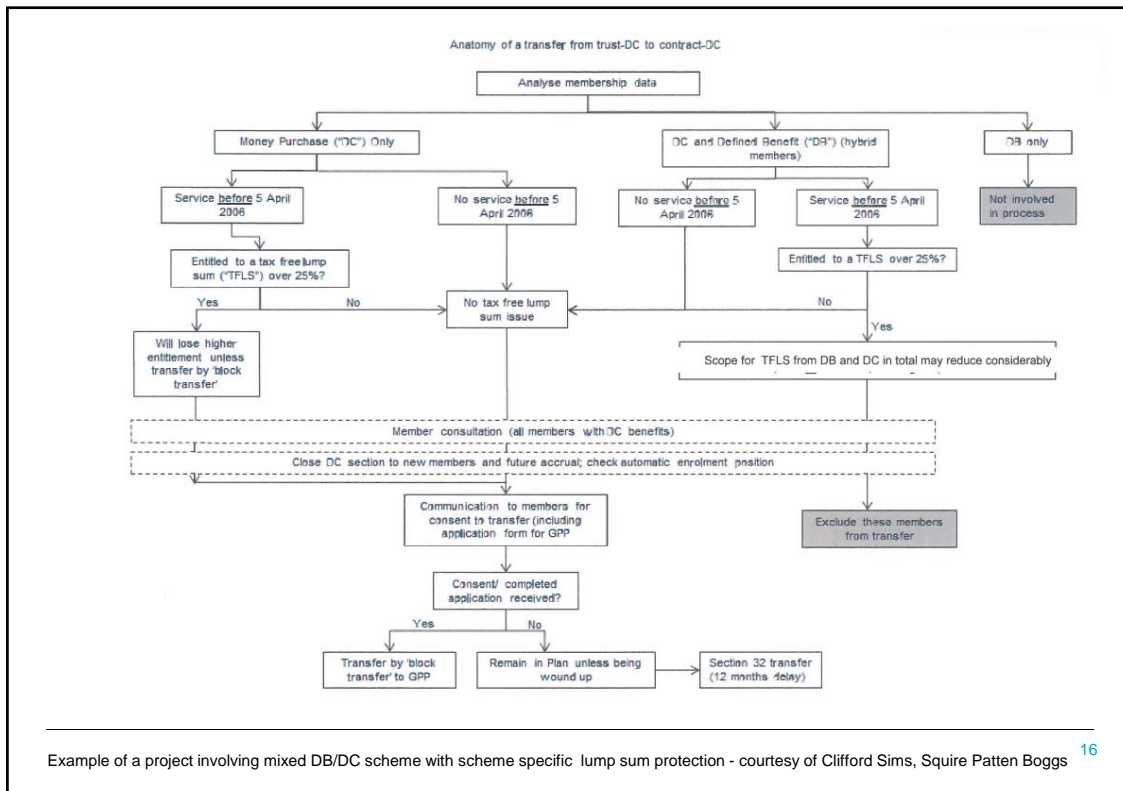
## Scheme specific protection



## Tools available

- Communicate with members and wait
- Leave some members untransferred
- Transfer but pay compensation
- Reshape the schemes involved/reshape the wind up

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Example of a project involving mixed DB/DC scheme with scheme specific lump sum protection - courtesy of Clifford Sims, Squire Patten Boggs

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# Tapered Annual Allowance

## Annual Allowance Scheme Pays

Message to member: you **may** be able to ask a scheme to pay some of your AA charge for a tax year and instead reduce your ultimate scheme benefits

Conditions you must satisfy in **current** law to have the right to use this for an AA charge for **2014/15**:

- AA used up in the scheme "in" **2014/15** exceeds **£40,000**
- Your total AA charge for 2014/15 exceeds £2,000
- You elect by statutory deadlines

Usually tax efficient: benefit reduction before income tax

The exact impact depends on the reduction terms (which must be *just and reasonable having regard to normal actuarial practice*) set by Trustees/ insurer.



Pay tax now  
from own  
resources



Or pay from pension pot and so receive a little  
less gross pension each year  
(and a consequent saving in income tax then)

## Annual Allowance Scheme Pays – and tax impact

Message to member: you **may** be able to ask a scheme to pay some of your AA charge for a tax year and instead reduce your ultimate scheme benefits

Conditions you must satisfy in **current** law to have the right to use this for an AA charge for **2016/17**:

- AA used up in the scheme “in” **2016/17** exceeds £40,000 (not the TAA)
- Your total AA charge for 2016/17 exceeds £2,000
- **But allow for interaction with the £10K MP AA**
- You elect by statutory deadlines

Usually tax efficient: benefit reduction before income tax

The exact impact depends on the reduction terms (which must be *just and reasonable having regard to normal actuarial practice*) set by Trustees/ insurer.



**Pay tax now  
from own  
resources**



**Or pay from pension pot and so receive a little  
less gross pension each year  
(and a consequent saving in income tax then)**

Confirmed by HMRC's Newsletter 78 and Pensions Tax Manual (PTM) update

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## Scheme Pays rights 2016/17+

*Voluntary Scheme Pays will become important to employees...*

### Example - Bob

- No carry forward
- DC contributions of £30,000
- Tapered AA turns out to be £20,000

AA charge of say £4,000  
(= 40% x 10,000)

Outcome:

No right to Scheme Pays:  
**Bob may have to pay the  
£4,000**

### Example - Ann

- No carry forward
- DB accrual of £42,000
- Tapered AA turns out to be £20,000

AA charge of say £8,800  
(= 40% x 22,000)

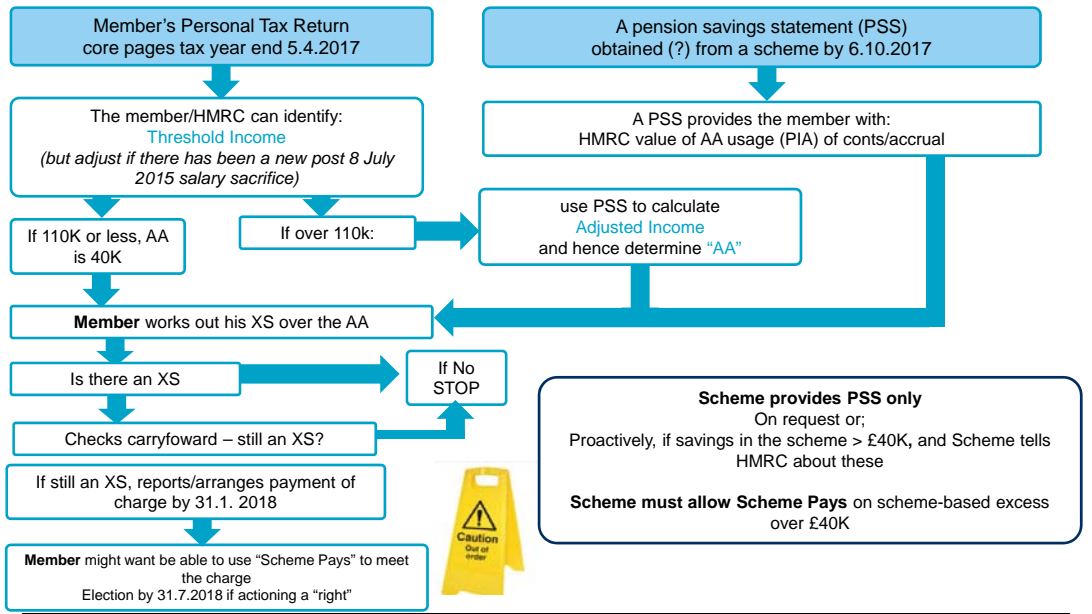
Outcome:

Right to Scheme Pays limited to  
£800 (40% x (42,000-40,000)):  
**Ann may have to pay £8,000**

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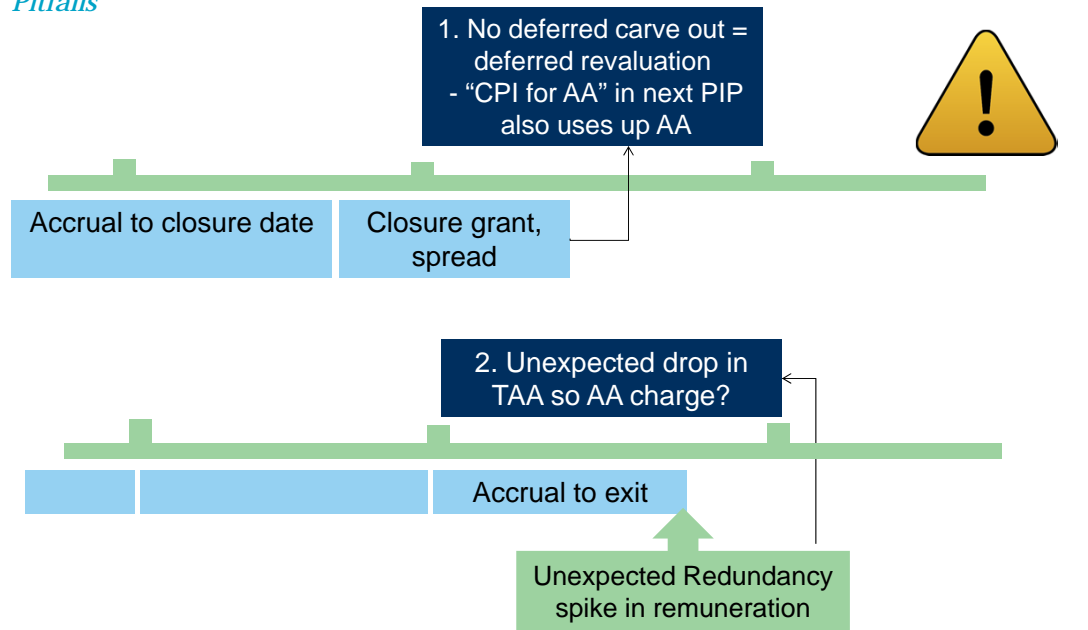
# How will TAA work in practice??!

*(ignoring the 10K MP AA)*



# And in the Annual Allowance world

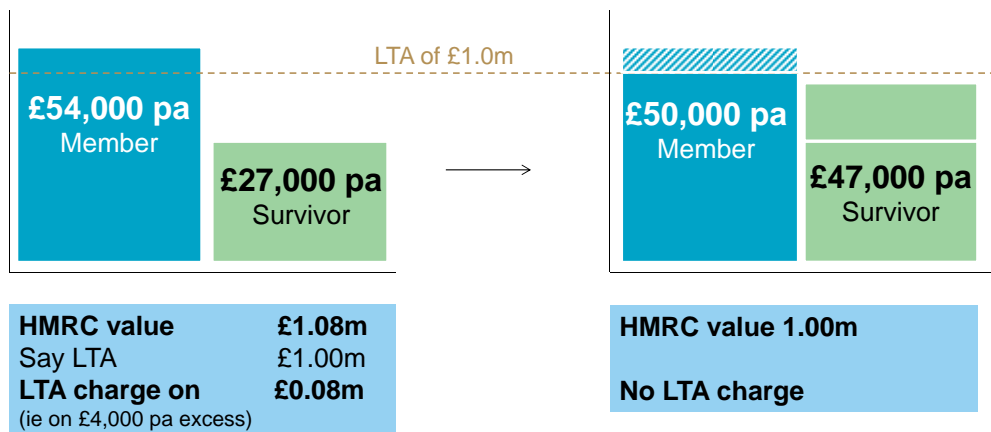
*Pitfalls*



## Dependant scheme pension – revised test, good news

### A DSP test has existed in tax law since 2006...

*Because survivor pension is invisible to Lifetime Allowance ..*



#### Aim of the tests?

- Pass if within reason
- But don't abuse (too much/shaping)

#### Test **at** death and every year **after**

Fail = part of each  
DSP paid unauthorised



## HMRC's strapline



tax doesn't have  
to be taxing

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**Questions**

**Comments**

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