Pension Contribution Tax Relief

Press speculation suggests that the Chancellor's 2016 Budget, which will be unveiled on 16 March, may change the current system of tax relief on pension contributions, whereby relief is granted at the saver's marginal tax rate.

This means that someone paying tax at 45% currently pays only £55 for every £100 received into their pension fund, whereas someone paying tax at 20% pays £80 for every £100 received into their pension fund.

Consequently, relief is currently going to those least likely to need an incentive to save for their retirement.

Two alternatives are being considered: either to replace the current system with one which provides a flat rate of relief, of say 30%, to all pension savers; or, more radically, to place pensions on the same footing as ISAs and to provide tax relief on withdrawals rather than contributions.

The second alternative seems the less likely, since it would remove the incentive to save; while the first option would have the advantage of providing a 10% uplift on contributions by basic rate taxpayers.

They could of course consider a third option of simply proving tax relief at a flat rate of 20% for all?

Protecting Pensions on Divorce

The increased flexibility now enjoyed by holders of personal pension plans as to when and how to draw the benefits has given rise to an unexpected consequence.

One of the options for the treatment of pensions on divorce is for the pension pot to be shared between the divorcing couple. However, most of the Court orders which govern these arrangements have assumed that the pension benefits would take the form of shared income, whereas they can now be drawn as capital. This means that, by taking the capital option, the spouse holding the pension could effectively thwart the court order.

However, the Government is proposing to introduce a requirement for pension companies to notify former spouses or civil partners if the pension holder wishes to draw the value of the fund as a capital payment, or to transfer the fund to a different pension company.

This would enable a potentially disadvantaged spouse to go back to the Court and request that the order should be changed in such a way as to ensure that the original objective was achieved.

The Government is consulting on this proposal and will also consider whether similar protection might be required in relation to the sharing of occupational pension benefits.

The New State Pension

With effect from April 2016, the current basic State Pension and the additional State Pension (previously known as SERPS – the State Earnings Related Pension Scheme) are to be merged into one single-tier scheme.

Coinciding with the change, the basic State Pension will rise from £115.95 per week to £119.30 per week, though the full entitlement will depend on National Insurance contributions or credits having been accrued for 35 years.

There will be winners and losers under the new system, but what is clear is that it will in future be easier to estimate one's State Pension entitlement and therefore easier to plan one's retirement finances.

The £100,000 Tax Threshold

The personal tax allowance is reduced gradually when income exceeds £100,000 p.a. and ceases to be available when income reaches £121,200.

The income level above which childcare benefit ceases to be available is to be reduced in April 2016 from £150,000 to the same £100,000 limit as applies to the personal allowance.

One way of avoiding these restrictions is for the taxpayer to arrange with his or her employer for a proportion of their salary to be paid as a pension contribution – an arrangement known as 'salary sacrifice'. However, the Government is thought to be considering whether to put a stop to the practice.

Tax on Interest and Dividends

From 6 April, banks and building societies will no longer deduct tax at source on the interest they pay. Instead, the first £1,000 of interest received in any tax year will be free of tax for basic rate taxpayers, while higher rate taxpayers will receive an allowance of £500 and additional rate taxpayers will receive no allowance at all.

Also from 6 April, the current system under which dividend payments receive a 10% tax credit is to be replaced by one under which they will be taxed in full, but investors will be entitled to receive dividends totaling £5,000 per year tax-free. Any excess over £5,000 will be taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

Secondhand Annuities

The idea of allowing people who have bought pension annuities to sell these to an institution was mooted last year and would be a logical step in light of the freedom which pension holders now enjoy to encash their pensions.

The idea has received a negative response from within the pensions industry, which would need to make major systems changes, but the Government is pressing ahead with a proposed launch date of April 2017.

However, the secondhand value of an annuity might well fail to come up to the expectations of some annuitants.

Personal Injury Claims

The Chancellor announced in his 2015 Autumn Statement that the Government is ending the right to cash compensation for minor whiplash claims. Exaggerated and fraudulent personal injury claims are thought to have been a major contributor to the rise in motor insurance premiums, and the Government estimates that its action could cause drivers' insurance costs to fall by between £40 to £50 p.a.

More cases will be able to be heard in the small claims court, as the upper limit for claims is to be increased from £1,000 to £5,000.

If you would like to discuss any of these matters further please contact:

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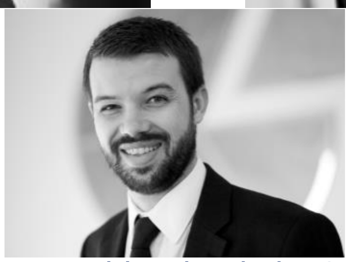

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