The PENSIONS Advisory Service

Spotlight

Twenty Changes for 6 April 2016

This factsheet outlines twenty changes happening as of 6 April 2016

The Pensions Advisory Service is unable to give individual specific advice and you should seek alternative tax or regulated financial advice.

Private Pensions – General changes

1. **Lifetime Allowance reduces from £1.25m to £1m**
   What you need to know - this coincides with the introduction of two forms of transitional protection, *Fixed Protection 2016* and *Individual Protection 2016*. Initially these protections are only available through writing in using a pro-forma letter to HMRC but an online process will be available from July. See our Spotlight on the Lifetime Allowance. You may also wish to consult with a regulated financial adviser.

2. **Introduction of the Tapered Annual Allowance**
   What you need to know – if you earn £150,000 or over, then for every £2 you earn above this, you will lose £1 of your Annual Allowance (AA). The maximum you can lose is £30,000 of annual allowance to bring the AA down from £40,000 to £10,000 for those earning £210,000 p.a. and above. The £150,000 test is based on total earnings so includes any form of taxable income. It also includes any employer's pension contribution. There is a threshold test of £110,000 p.a. of earnings excluding pension contributions. If earnings are below this threshold then the user is not affected. You can still carry forward from previous tax years any unused annual allowance. See our Spotlight on End of Tax Year Planning. You may also wish to consult with a regulated financial adviser.

3. **Pension Input Periods (PIP) will now be aligned with the tax year.**
   What you need to know – this should make the process of working out what can be paid into a pension scheme easier, as all schemes will have the tax year as the PIP.

4. **Basis of taxation of pensions on death will change**
   What you need to know – various changes are coming into force:
   - Taxation at death on pensions at age 75 and beyond changes to the marginal rate of the recipient. Up to now the charge was 45%. For deaths before age 75, there is no tax payable.
   - Dependant's Scheme Pension will now be able to go above the member's scheme pension and remain an authorised payment.
   - Inheritance Tax rules are being tightened up to ensure that unused drawdown funds are not subject to a charge on death.

5. **Defined contribution (DC) pensions already in payment can be paid as a trivial commutation lump sum.**

What you need to know – if your total pension savings would be under £30,000 trivial commutation of a pension payable from a DC scheme will now be permitted. Trivial commutation allows for smaller pensions to be paid out as a lump sum. As tax-free cash would have already been paid out in these circumstances, the lump sum will be taxable at the member's marginal rate.

6. **Serious Ill Health brought in line with pension flexibilities.**

What you need to know – if your life expectancy is less than 12 months you will be allowed to take remaining uncrystallised benefits, after having started taking some of your benefits earlier, as a tax free serious ill health payment below aged 75. If you are over 75 you will be taxed at your marginal rate.

Changes to defined benefit pensions

7. **Contracting out for Defined Benefit schemes ends.**

What you need to know – contracting out enabled scheme members to opt out of the State Second pension and pay lower National Insurance Contributions (NICs). With the introduction of the new single tier state pension, it will not be possible to contract out of any element of the state pension from 6th April. Members will no longer receive the 1.4% NI rebate and will pay higher NICs. Employers will also pay higher NI and there is a mechanism for them to reduce scheme benefits to reflect these higher costs, if they wish. Your employer must consult with you if they do reduce benefits.

8. **Pension Protection Fund (PPF) compensation levels change.**

What you need to know – the compensation cap will rise from £34,401.19 to £37,420.42 if your scheme goes into the PPF and you receive benefits from it.

9. **Changes to Public Sector pensions**

What you need to know:

- Public sector pensions in payment will not increase in 2016/17 as the Consumer Price Index (CPI) figure on which the increase is based was -0.1%.
- For Career Average schemes pensionable earnings linked to CPI will be revalued at a rate of -0.1%. Where they are linked to national average earnings they will increase by 2%.

The new state pension

10. The single tier, New State Pension will come into force for those who reach state pension age from 6th April onwards.

What you need to know – these are some of the key features:

- There is a minimum qualifying period of 10 years to be eligible for a state pension, and 35 years of contributions are needed to acquire the full single tier pension of £155.65 per week.
- Transitional arrangements apply for those people who have built up state pension under the two-tier system. Your state pension will be the higher of the "starting amount" based on the old system, and the new entitlement.
- If you have been contracted out of the state second pensions (or SERPS) you will have paid lower National Insurance Contributions, and your starting amount will have deduction to allow for the period of contracted out service.

Note that those in receipt of the full existing Basic State Pension will see it increase to £119.30 per week.

Auto-enrolment

11. Member-borne commission now banned.
What you need to know - it will not be possible to pass on commission payments for financial advisers to employees for a pension scheme which has been set up for auto-enrolment or to be considered as suitable for auto-enrolment. This ban does not currently apply to existing commission arrangements, although future legislation is expected to come into force later in 2016 banning this as well.

12. Charges for deferred members cannot be higher than active members
What you need to know- workplace defined contribution schemes used for auto-enrolment will be prohibited from levying higher charges for deferred members (such as active member discounts).

13. Auto Enrolment Qualifying Earnings thresholds change
What you need to know – the lower level of qualifying earnings remains at £5,824 and the upper end increases from £42,385 to £43,000. Minimum contributions required under auto enrolment are usually based on earnings in these bands.

General Savings and Investments changes

14. Introduction of Personal Savings Allowance and Dividend Allowance.
What you need to know:

- The first £1,000 of income from interest you receive will be tax free. This reduces to £500 for High Rate tax payers and £0 for Additional Rate tax payers. This is in addition to the already available £5,000 starting rate limit (savings income).
- Providers will not deduct tax from the interest on their savings accounts going forward. If in doubt you should declare additional interest via self-assessment.
- There will be a £5,000 tax free allowance for dividends you receive along with the abolition of the dividend tax credit.
- Users will be able to receive £5,000 worth of dividends tax free and any excess will be charged at a rate of 7.5% (Basic rate tax payers); 32.5% (High rate); 38.1% (Additional rate). Total dividend income will still count towards earnings and could push users into higher tax brackets.
- Dividends inside a pension or ISA will become non-taxable. Previously they were deemed to have technically paid 10% tax, the result for the user will be tax neutral.
- Dividend income in a pension or ISA does not count towards earnings and will not push a user into a higher tax bracket.

ISA changes

15. Change to ISA rules on death
What you need to know - since 6 April 2015 surviving spouses/civil partners have had an enhancement in their ISA allowance to the equivalent value of their late spouse/civil partner's ISA. New rules are brought in to ensure that the ISA itself doesn't end at death and gives enough time for the executors of the estate to sort out affairs first and to avoid unnecessary tax being paid.

16. Peer to Peer ISAs available.
***What you need to know* –** peer to peer lending will now be an allowable asset within an ISA. This may offer the potential for higher returns but at a higher risk than other asset classes.

General Taxation and Benefits

17. Personal Income Tax Allowances and National Insurance limits will change:
What you need to know:

- Basic Rate @ 20% will start at £11,000 (£10,600 previously)
- High Rate @ 40% will start at £43,000 (£42,385 previously)
- Additional rate @ 45% remains at £150,000
- Users will still lose £1 of their £11,000 personal allowance for every £2 above £100,000 of income.
- The upper earnings limit for class 1 National Insurance contributions will rise from £815 to £827 per week (£43,000 per year).

18. Reduction in Capital Gains
What you need to know: this tax will reduce to 20% (from 28%) for High rate tax payers and to 10% (from 18%) for Basic rate tax payers. Additional Tax rate payers will still pay 28% CGT.

19. Changes to Stamp Duty for buy-to-let properties
What you need to know: Buy to let purchases now attract an additional 3% stamp duty surcharge. There will be a new starting threshold of £40,000 which will capture nearly all buy to let transactions. The stamp duty increase will apply to all buy to let purchases unless total individual ownership is limited to a single dwelling, i.e. the purchaser does not already own any type of property.

20. End of Savings Credit
What you need to know: If you reach State Pension Age from 6 April onwards then it is only possible to be eligible for the guaranteed credit element of Pension Credit going forward as savings credit will not be paid to new pensioners. Those already in receipt of savings credit will continue to receive it.

How do I find out more?

Please see our End of Year Tax Planning, Lifetime Allowance and Financial Advice Spotlights for further information which can be accessed via the following link:

https://www.pensionsadvisoryservice.org.uk/publications/category/spotlights

About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

The Pensions Advisory Service is provided by Money & Pensions Service

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