March 2011

Review

Budget 2011

BUDGET NOTES - PENSIONS

Key points

- The changes to the pensions tax regime announced last year, including reductions in the annual allowance and lifetime allowance, remain unchanged. For more details see the section headed “Last year’s announcements” below.
- A consultation will be launched on limiting the tax relief on asset-backed contributions made by employers to defined benefit schemes.
- The proposed merger of the income tax and National Insurance contributions (“NICs”) regimes will not affect individuals above the state pension age and NICs will not be extended to pensions or savings income.
- A consultation will also be launched with the aim of reforming and simplifying the state pension system.
- The Government has backed the recommendations made by the report of Lord Hutton’s Independent Public Service Pensions Commission. The recommendations will be used as a basis for consultation with public sector workers, trade unions and others.

New announcements

A consultation will be launched on changes to tax rules to limit the amount of tax relief available to employers when they make asset-backed contributions to their defined benefit pension schemes. The changes are intended to be introduced in 2012 or later and would work so that the tax relief accurately reflects the increase in fair value of a scheme’s assets, but without removing the flexibility for employers.

On the recommendation of the Office of Tax Simplification, the Government will consult on the proposal to integrate the income tax and NICs regimes. However, NICs will not be extended to individuals above the state pension age or to income from pensions, savings or dividends.

The Government is aiming to reform the state pension system for future pensioners. Although the Department for Work and Pensions will consult on the means of reform, it is proposed that the state pension will be reformed so that it provides simple contributory flat-rate support above the level of the Guarantee Credit. One proposal will be for a single-tier pension worth around £140 a week to be introduced. The change to a single-tier provision would end contracting out for defined benefit schemes.

Last year's announcements

The principal changes announced made by the Government last year are as follows:

1. The new reduced annual allowance of £50,000 will come into effect from 6 April 2011.
2. The reduction of the lifetime allowance from £1.8 million to £1.5 million will take effect from 6 April 2012.
3. The requirement for members of registered pension schemes to purchase an annuity by the age of 75 will be abolished from 6 April 2011.
4. The state pension age will rise to 66 from 2020.

The new annual allowance

The new reduced annual allowance of £50,000 will apply to pensions savers from April 2011. Any unused annual allowance will be able to be carried forwards for three years. Individuals who are subject to annual allowance charges over £2,000 will be able to satisfy these from their pension benefits. The previous Government's complex plans to restrict tax relief on pension contributions for high earners have been dropped.

The new lifetime allowance

Scheme members whose lifetime savings are above £1.5 million, or may exceed £1.5 million by 6 April 2012, can apply for a protected lifetime allowance of £1.8 million provided they cease to accrue benefits in all registered pension schemes before 6 April 2012.

Individuals affected

High earners who make significant contributions to defined contribution schemes or middle earners with long service in defined benefit schemes may be affected by the reduced annual allowance. Employers may wish to assist them with other forms of retirement planning if the value of registered pensions savings is significantly reduced.

Disguised remuneration

Employers should also be aware of the introduction of the rules on "disguised remuneration" from 6 April 2011, final details of which will be published in the Finance Bill next week. These rules will apply to funded EFRBS and to the use of employee benefit trusts and third parties to provide employee remuneration and/or retirement planning. However, HM Revenue & Customs has recently indicated that wholly unfunded EFRBS will not be affected.

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