SQUIRE SANDERS

BUDGET OF 21 MARCH 2012: PENSIONS

It was a quieter Budget than we expected for pension plans! The key points made by the Chancellor yesterday lunchtime that impact on pension plans are summarised below.

- The annual allowance will remain at £50,000 and no restriction on tax relief for higher earners was announced.
- The state pension age will in future keep pace with life expectancy – proposals are expected in the summer. The Chancellor also confirmed that the state pension will become a single-tier pension in future, worth an estimated £140 per week.
- The income tax personal allowance will rise to £8,105 in April 2012 and £9,205 in April 2013. Age-related allowances will be frozen from April 2013 until they are aligned with the basic personal allowance.
- The top rate of income tax will be reduced from 50 percent to 45 percent from 6 April 2013.
- Further changes to the draft legislation to restrict tax relief on employer asset-backed pension contributions have been announced.
- The government will support a "pension infrastructure platform", owned and operated by UK pension funds, in order to encourage investment by funds in UK infrastructure.
- The proposals to merge the income tax and NICs regimes made in the Budget 2011 will be the subject of a further detailed consultation.

The Good?

Contrary to expectation and widespread press speculation, the annual allowance applying to pensions savings will remain at £50,000 – the level to which it was reduced last year. There is also no change to pensions tax relief for higher earners. Contributions to registered pension plans will, at least for now, continue to be attractive because of the tax relief available.

The increase in the basic personal allowance to £8,105 from 6 April 2012 is welcome, as is a further significant increase to £9,205 from 6 April 2013. It will reduce the income tax burden for lower earners, including many pensioners.

The government announced that it intends to support the establishment of a "pension infrastructure platform". This will be owned and operated by UK pension funds. It is intended that the first wave of around £2 billion of investment in UK infrastructure will take place by early 2013. There will be further details to follow, but trustees should consider new investment options when setting future investment strategies.

The Bad?

The government has committed to increasing the state pension age in future, to take account of increases in life expectancy. It will publish proposals on how this will work in the summer.

In the autumn statement, in November 2011, the government announced that it would legislate to restrict tax relief on employer asset-backed pension contributions with immediate effect. The government published further legislation, which also had immediate effect, on 22 February 2012 to limit the circumstances in which upfront tax relief could be given to asset-backed arrangements. Further changes to the draft legislation have been announced with effect from yesterday and will be included in the Finance Bill 2012. Anyone considering asset-backed arrangements for funding solutions should consider the impact of the Budget.

The Future

It was announced in the Budget 2011 that the government would look into proposals to merge the income tax and NICs regimes. During 2011, the Government investigated this further and the Chancellor yesterday announced that a detailed consultation would be launched after the Budget, which will set out a wide range of options for the operation of NICs charged on employees, employers and self-employed workers. This could have an impact on pensions tax relief, on pension plans that operate salary sacrifice arrangements and on pension plans that are contracted out of the state second pension.

Measures have been announced to simplify the income tax age-related allowances for pensioners. These changes are intended to reduce the number of pensioners who will have to submit a self-assessment tax return each year.

The State Pension will be changed into a single-tier pension for future pensioners. The government intends to introduce the single-tier system early in the next parliament and it is expected to be set above the means test at around £140 per week. We await further details in the spring. What does this mean for defined benefit pension plans that integrate with state pension provision? Is the end now in sight for defined benefit contracting-out? Time will tell!

Contacts:

Timothy H. Jarvis
T +44 (0)113 284 7214
E timothy.jarvis@squiresanders.com

Catherine McKenna
T +44 (0)113 284 7045
E catherine.mckenna@squiresanders.com