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# Pensions tax simplification shapes up

On 8 April 2004, the Government published the Finance Bill 2004 which sets out the mechanics for achieving pensions tax simplification. This follows Gordon Brown's Budget announcement that he would proceed with his plans to replace the current eight pensions tax regimes with a uniform set of allowances applicable to all - but not until 2006.

Some 132 clauses (clauses 139-270) and seven schedules (schedules 28-34) of the Finance Bill are devoted to pensions tax simplification. The intricacies of the Bill's drafting are numerous and will no doubt develop as the Bill shapes up into an Act. Here we set out a quick reminder of some of the essential elements of the proposed new simplified regime:

- The current Inland Revenue limits on benefits and contributions to pension schemes will disappear from "A-Day" (6 April 2006), to be replaced by a Lifetime Allowance (LA) and a "light touch" Annual Allowance (AA).
- The initial LA will be £1.5 million, increasing each year until it hits £1.8 million in 2010[1]. Initially £215,000 a year, the AA will also rise each year until it reaches £255,000 in 2010[2]. Thereafter, the intention seems to be to review the LA and AA every five years.
- Whilst pension benefits may accrue which exceed the LA, a 25% "recovery charge" will be levied on the excess (unless taken as a lump sum, in which case the charge will be 55%).
- If an individual's "total pension input amount" is more than the AA in any tax year, a 40% charge will apply.
- It will be possible to take a tax-free lump sum at retirement of up to 25% of benefits below the LA.

[1] The figures for the intervening years are: £1.6m in 2007; £1.65m in 2008; and £1.75m in 2009
[2] The figures for the intervening years are: £225k in 2007; £235k in 2008; and £245k in 2009

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- The new limits will generally apply to everyone saving for a pension through a "registered pension scheme". Both occupational and personal pension schemes which are currently approved by the Inland Revenue will automatically become "registered" from A-Day, unless they opt out (by notifying the Inland Revenue).

- By 2010, the minimum age at which pension can be taken will rise to 55. There will be protection, however, for certain individuals with existing contractual rights to retire early and for those in particular professions.

- "Primary Protection" will allow individuals whose accumulated pension exceeds the LA at A-Day to escape the 25% recovery charge in respect of pre A-Day benefits.

- "Enhanced Protection" offers an alternative method of safeguarding accrued benefits post A-Day. This protection will be available whether or not a fund is over the LA at A-Day. But no further contributions or pensions accrual will be allowed, although salary-linking (subject to restrictions) can continue for a defined benefit pension.

- To benefit from either "Primary Protection" or "Enhanced Protection", a "notice of intention" will need to be given to the Inland Revenue. Further details will be set out in Regulations.

- The Bill gives the Inland Revenue power to make certain amendments to scheme rules by Regulations so that they comply with the requirements of the simplified regime. However, scheme rules will need to be updated at the first opportunity after A-Day or by 6 April 2009 at the latest.

A copy of the Finance Bill (in two parts), together with Explanatory Notes, is available at:

http://www.publications.parliament.uk/pa/cm200304/cmbills/089/89i.pdf
http://www.publications.parliament.uk/pa/cm200304/cmbills/089/89ii.pdf
http://www.hm-treasury.gov.uk/media//9C17E/fb04en139_270.pdf

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