

PENSIONS TAX SIMPLIFICATION DELAYED TO 2006

In his Budget speech, the Chancellor, Gordon Brown, confirmed that he will proceed with his plans to replace the current eight pensions tax regimes with one set of uniform rules applicable to all. His announcement follows the publication of the National Audit Office's ("NAO") report on 9 March 2004, responding to specific questions raised by the Chancellor regarding the number of people who may be affected by the new measures.

In the light of responses generally to the Government's consultation document¹ of 10 December 2003 and the NAO's report, the Government has announced some key changes to its original proposals:

- The initial lifetime allowance is to be increased to £1.5 million (up from £1.4 million) rising each year until it reaches £1.8 million in 2010². The allowance and the increases on it will then be reviewed every 5 years (starting in 2010);
- The new simplified tax system will not take effect until April 2006 ("A-day"), although it will be legislated for in the Finance Bill 2004.

This delay may help employers and trustees, who are already facing a raft of proposed changes under the Pensions Bill, the bulk of which are likely to be implemented in Spring 2005. But, as the tax simplification changes were originally scheduled to come into effect in April 2004, this is the second occasion on which A-day has been delayed.

Finally, the earnings cap for 2004/05 is to rise from £99,000 to £102,000.

¹ Simplifying the taxation of pensions: the Government's proposals (published 10 December 2003)

² The limits for the intervening years are: £1.6m in 2007; £1.65m in 2008; and £1.75m in 2009