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alert

sackers extra

TAX SIMPLIFICATION – FINANCE BILL 2005

1 BACKGROUND

Following Gordon Brown's Budget confirmation that "a package of supplementary measures" on tax simplification was in the pipeline, the Finance Bill 2005 was published on 24 March 2005. The amending provisions are contained in two rather short sections (sections 150 and 151) and a rather chunky schedule (Schedule 19).

The changes in the Bill will form part of the tax simplification changes due to come into force on 6 April 2006 (A-Day). They reflect those changes announced by the Inland Revenue back in February 2005[1], with the new measures covering four main areas of the current tax simplification proposals:

- benefits and contributions;
- lifetime allowance;
- unauthorised payments;
- transitional issues.

2 EXAMPLES

A few examples of the new measures include:

- **"Dependant"** – "if they so wish" schemes will be able to include within this definition an individual who was married to the member when his/her pension first came into payment, but who is divorced from the member by the date of his/her death. Greater flexibility is also built in to allow dependants'

[1] See our Sackers Extra Alert "Tax Simplification – further changes announced" dated 18 February 2005

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pensions to be stopped in payment.

- **50 member rule** – the current provision in the Finance Act 2004 that schemes (including defined benefit arrangements) with fewer than 50 members must provide scheme pensions through an insurance company is being removed.

- **Pensions in payment** – a relaxation will be made to allow pensions in payment to be reduced in certain circumstances (for example, where there is a pension sharing on divorce order, a court order or where a benefit must be forfeited). Further circumstances may be specified in regulations.

- **Lump sums** – individuals with enhanced protection will be prevented from taking benefits in excess of the lifetime allowance as a lump sum (the general rule is that any excess over the lifetime allowance can be taken as a lump sum, subject to a 55% recovery charge). The Explanatory notes to the Bill explain that "without this change, a member claiming enhanced protection would, as a result of the current wording of [FA 2004], be able to take any amounts in excess of £1.5 million as a lifetime allowance lump sum and would not suffer any tax".

3 CONCLUSION

Many of the changes contained in the Bill are fairly technical and require further scrutiny. We will provide you with more analysis over the coming months as we build up to A-Day.

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

http://www.parliament.the-stationery-office.co.uk/pa/cm200405/cmbills/092/2005092.htm

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