Finance (No.2) Bill 2016

Alert | 29 March 2016

Introduction

The Finance (No.2) Bill 2016 (“the Bill”) was published on 24 March 2016. It includes measures which were first published draft in December 2015 (see our Alert) as well as new provisions which were announced in this year’s Budget.

On Royal Assent, the Bill will become the Finance Act 2016.

Key points

The Bill includes provisions relating to the reduction of the LTA, FP16 and IP16, as well as a number of minor, technical changes to the pensions tax rules which aim to ensure they operate as intended following the introduction of pension flexibility in 2015.

Reduction of the LTA

The draft clauses will:

- reduce the standard LTA to £1 million from the 2016/17 tax year onwards, and for it to increase annually in line with CPI from April 2018
- introduce transitional protections (“fixed protection 2016” (FP16) and “individual protection 2016” (IP16)) for those with pension rights already at or around the £1 million mark, to ensure that the reduction in the LTA is not retrospective

The reduction of the standard LTA and the new transitional protections were given temporary legal effect by Budget Resolutions (which have statutory effect) passed on 22 March 2016.

Measures from the Autumn Statement

The Bill includes provisions to:

- simplify the test that takes place when a dependant’s scheme pension is payable in respect of a member who had reached age 75 at the time of their death

- ensure that a charge to inheritance tax will not arise when a pension scheme member designates funds for drawdown but does not draw all of the funds before death. These provisions will be treated as coming into force on 6 April 2011 (in relation to drawdown funds) and from 6 April 2015 (in relation to flexi-access drawdown funds), to coincide with the dates on which these types of benefit were introduced

- start to align the pensions tax rules on bridging pensions with DWP legislation in the wake of the introduction of the new single tier State Pension from 6 April 2016. A consultation on draft regulations will follow.

Pension flexibility changes

These measures, which were announced in the 2016 Budget, are intended to:

- permit a serious ill-health lump sum to be paid out of unused drawdown funds

- make serious ill-health lump sums taxable at an individual's marginal rate (rather than at 45%) when paid in respect of individuals aged 75 or over

- enable dependants with drawdown or flexi-access drawdown pension funds who would currently have to use all of this fund before age 23 or pay tax charges of up to 70% on any lump sum payment to continue to access their funds as they wish after their 23rd birthday

- allow charity lump sum death benefits to be paid from uncrystallised funds in respect of a member who had not reached 75 at the time of their death

- enable money purchase pensions in payment to be paid as a trivial commutation lump sum, where total pension savings would be under £30,000

- enable the full amount of a dependant's benefits to be paid as an authorised payment where there are insufficient funds in a cash balance arrangement to fund the promised benefit when the member dies and the scheme must provide a top-up

- ensure that where an annuity is payable on death to a nominee and some or all of the cost of the annuity could have been paid to a personal representative instead, those funds shall not form part of the deceased's estate for the purposes of inheritance tax.

These changes will take effect on the day after Royal Assent to the Bill.

Next steps

The Bill is likely to receive Royal Assent in the summer.

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