Finance Bill receives Royal Assent

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Introduction

The Finance Act 2016 received Royal Assent on 15 September 2016.

The Act, which introduces provisions announced by the Chancellor in the 2016 Budget, Autumn Statement 2015 and Summer Budget 2015, contains key measures relating to pensions.

Key points

- The Act includes provisions relating to the reduction of the LTA from £1.25 million to £1 million with effect from 6 April 2016.
- Transitional protections, in the form of “fixed protection 2016” (FP16) and “individual protection 2016” (IP16), are also introduced with effect from 6 April 2016 to help individuals whose pension savings are already at or around the £1 million mark.
- The Act also sets out a number of technical changes to the pensions tax rules which aim to ensure that they operate as intended following the introduction of the DC retirement flexibilities in 2015.

Reducing the LTA

The Act formalises:

- the reduction in the standard LTA from £1.25 million to £1 million from 6 April 2016 onwards, and provides for it to increase annually in line with CPI from the tax year 2018/19 onwards
- the introduction of transitional protections, FP16 and IP16, operating in a similar way to FP14 and IP14 which were introduced when the LTA was last reduced (from £1.5 million to £1.25 million) on 6 April 2014.

The reduction in the LTA and the introduction of FP16 and IP16 were given interim legal effect between 22 March 2016 and the granting of Royal Assent by a House of Commons’ Budget Resolution.

Technical changes

As announced in the Autumn Statement, the Act also 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 are treated as having come into force on 6 April 2011 in relation to general drawdown funds (this being the date from which the requirement to purchase an annuity at age 75 was removed and the option to enter drawdown instead was introduced) and on 6 April 2015 in relation to flexi-access drawdown funds
- 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, and the end of DB contracting-out, from 6 April 2016.

Retirement flexibility changes

Various retirement flexibility changes, which were announced in the 2016 Budget, take effect on 16 September (the day after Royal Assent). The measures include:

- permitting a serious ill-health lump sum to be paid out of unused drawdown funds
- making 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
- enabling DC pensions in payment to be paid as a trivial commutation lump sum, where total pension savings would be under £30,000
- ensuring 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.

Still to come

Related guidance, including HMRC's Pensions Tax Manual, is expected to be updated shortly.

Looking ahead, the Finance Bill 2017 is due to contain measures to introduce the secondary market for annuities, removing the current pensions tax restrictions on individuals selling their right to future annuity income.

What should employers and trustees be doing?

Employers and trustees should familiarise themselves with the changes.

Schemes should already be working with the reduced LTA, and taking action in relation to members wishing to take advantage of the latest transitional protections. Since 31 July 2016, applications for either FP16 or IP16 must be made online.

If you wish to discuss any of these issues with us, please speak to your usual Sackers' contact.

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