Changes to pension taxation for high earners

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What are we covering?

Pension tax changes

- Background – the Government announced changes to pensions tax relief as part of its Summer budget 2015
- Explanation of changes
  - Annual Allowance
  - Lifetime Allowance
  - Review of pension tax relief
- How to work out if you are affected
- Options if you are affected
- Next steps

What are the changes?

Pension tax-relief

- Short-term changes
  - 2015/16: Transitional arrangements
  - 2016/17: Tapering of Annual Allowance (AA)
  - 6 April 2016: Reduction in Lifetime Allowance (LTA)
- Medium-term changes
  - Broader review of tax-relief

Annual Allowance (AA) – a reminder

- Amount of pension saving that can be made in each year before a tax charge is incurred

Tax year	Annual Allowance
2010/11	£255,000
2011/12	£50,000
2012/13	£50,000
2013/14	£50,000
2014/15	£40,000

- All contributions to DC arrangements count towards AA
- Unused AA can be carried forward for up to three years
- Saving above the AA is taxed at employee’s marginal rate of income tax (the AA tax charge)
    - Taxed again when benefits are taken

Carry forward capacity

Relevant tax-year	Annual Allowance	Pension Saving	Carry-forward/ Capacity	Available Capacity 2014/15
2014/15	£40,000	£40,000	£0	£0
2013/14	£50,000	£35,000	£15,000	£15,000
2012/13	£50,000	£60,000	(£10,000)	£0
2011/12	£50,000	£30,000	£20,000	£10,000

2014/15 Capacity: £65,000 total in year capacity
£10,000 from 2011/12 – 'use it or lose it'
£15,000 from 2013/14 – available for 2 more years

Note - Members must exhaust the current year's AA before carrying forward any unused AA and unused allowance must be taken from the oldest tax year first.

Annual Allowance for 2015/16

- Additional pension saving capacity is available for 2015/16
  - Pension input period (PIP) which started 6 April 2015 ended 8 July 2015 (Summer Budget) – Pre-alignment tax year
  - New PIP started 9 July 2015 ends 5 April 2016 – Post-alignment tax year
- AA for pre-alignment year is £80,000
- Savings capacity for post-alignment year is £0 but unused AA from pre-alignment year can be carried forward up to a maximum of £40k

Annual Allowance for 2015/16

6/4/15

Combined Period – 2015/16 'tax year'

5/4/16

Pre-alignment tax year
6/4/15 – 8/7/15
Annual Allowance: £80,000

Post-alignment tax year
9/7/15 – 5/4/16
Annual Allowance: £0
Unused AA from 'pre' year can be carried forward up to a maximum of £40k

Contributions paid
6/4/15 – 8/7/15

Contributions paid
9/7/15 – 5/4/16

Gill's explanation

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Pre-Alignment Tax Year

Post-Alignment Tax Year

6 April 2015

6 April – 8 July 2015/16 £40,000 ANNUAL ALLOWANCE + CARRY FORWARD FROM 2012/13, 2013/14 & 2014/15

8 July 2015

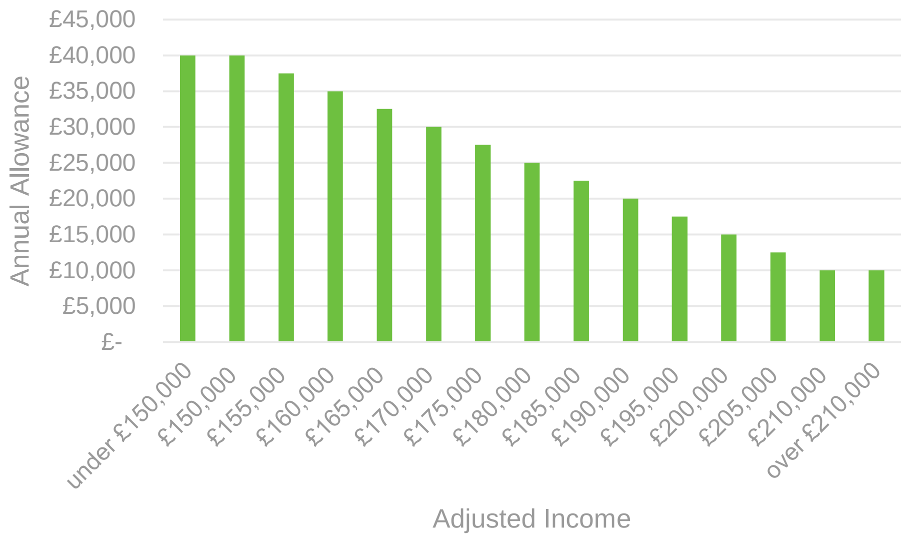
9 JULY 2015 – 5 APRIL 2016 £40k + unused carry forward (not from pre-alignment)

Annual Allowance 2016/17

- Threshold income (£110k)
  - Broadly taxable income plus any change to salary sacrifice made after 8 July 2015
  - Includes salary, bonus, car allowance, benefits in kind, income from property, interest on savings, dividends, etc.
- Adjusted income (£150k)
  - Broadly taxable income plus total value of pension saving both at Telefónica and also private pensions

Annual Allowance 2016/17: tapering

- For 2016/17, Annual Allowance is not fixed for everyone. It tapers from £40,000 to £10,000:
  - If adjusted income exceeds £150,000; but
  - doesn't apply if threshold income is under £110,000
- £1 reduction for every £2 of adjusted income above £150,000



Adjusted Income	Annual Allowance
£150k	£40k
£180k	£25k
£200k	£15k
£210k	£10k

Annual Allowance 2016/17

	2016/17 amounts
Taxable (Threshold) income*	£160,000
Pension saving	£40,000
Adjusted income	£160,000 + £40,000 = £200,000
Tapered AA	£40,000 – (£50,000 / 2) = £15,000
Excess over AA (if no carry forward)	£40,000 - £15,000 = £25,000
Tax @ 45%	£11,250

*excludes employee and salary sacrifice pension contributions.

Lifetime Allowance (LTA)

- Maximum amount you can receive from all pension arrangements before you incur a tax charge
- LTA reducing to £1m from £1.25m on 6 April 2016
  - Indexed in line with inflation (CPI) from 2018
- Value (simplified):
  - DB: Pension at retirement x 20 plus lump sum
  - DC: Fund value at date benefits are taken
- Tax charge:
  - Paid when benefits are taken:
    - Benefits taken as a lump-sum: 55%
    - Benefits taken as pension: 25% (plus tax on pension)

LTA Protections

- No impact if you take benefits before 6 April 2016
- Existing protections are not impacted
- Two new protections available from July 2016

	Fixed Protection 2016 (FP16)	Individual Protection 2016 (IP16)
Who can apply?	No minimum Lifetime Allowance value.	Minimum Lifetime Allowance value £1m on 5 April 2016.
Impact on Lifetime Allowance	Fixed at £1.25m. Excess benefits subject to Lifetime Allowance Tax Charge.	Individual Lifetime Allowance of value on 5 April 2016 up to £1.25m. Excess benefits subject to Lifetime Allowance Tax Charge.
Restrictions	No further contributions to a pension plan can be made after 5 April 2016 otherwise FP16 is lost.	None – members can continue building up benefits.
Applications	No deadline but need certificate from HMRC before benefits are drawn.	

LTA Protections

Valuing your benefits for IP16

- Defined benefit arrangements
  - Defined benefit pension arrangements

Annual pension on 5 April 2016 * x Valuation factor of 20

*Based on service to 5 April 2016.
Ignoring any adjustment that would apply if benefits are taken before or after NRD.
Where benefits are not in payment.

- Defined contribution arrangements
  - Defined contribution pension arrangements
  - Additional Voluntary Contribution (AVC) funds
  - Personal pensions

Fund value on 5 April 2016

Review of pension tax relief

- Government consultation on how the pensions tax relief system is structured in future
- The principles it says it will measure the system against are:
  - Simplicity and transparency
  - Encouraging personal responsibility
  - Sustainability i.e. “in line with the Government’s long-term fiscal strategy”
- Could result in a fundamental change to the way pension saving is taxed
- Expect Chancellor to announce conclusion in Spring Budget 2016

Am I affected?

Annual Allowance 2016/17: tapering

- To work out whether you will be affected you need to consider the following:
  1. How much do you expect your threshold income to be in 2016/17?
  2. If your threshold income is above £110k, you need to work out your expected adjusted income for 2016/17.
  3. If your adjusted income is more than £150k your Annual Allowance for 2016/17 will be less than £40k.
  4. Do you expect the value of your pension saving in 2016/17 to be more than your reduced Annual Allowance?
  5. Do you have any unused Annual Allowance from the previous 3 tax years which you can use to increase your Annual Allowance in 2016/17?

Is your taxable income more than £110,000? — NO → Your Annual Allowance continues to be **£40,000**

Is your taxable income plus pension accrual less than £150,000? — YES → Your Annual Allowance is **£40,000**

Is your taxable income plus pension accrual less than £210,000? — YES → Your Annual Allowance is calculated as **£40,000 – (income - £150,000) / 2**

— NO → Your Annual Allowance is **£10,000**

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Annual Allowance

- If your pension saving in 2016/17 exceeds your AA (including amounts carried forward) the excess will be subject to an AA tax charge
- The tax charge is payable at your marginal rate of income tax
- If it is more than £2,000 you may be able to use scheme pays
- Pensions in payment are taxed and any amounts above the Lifetime Allowance will be subject to an additional tax charge
- Effectively you could be taxed twice – once when you pay in and once when you draw out. Not tax efficient

Lifetime Allowance

- You will not be affected by the reduction in the LTA if:
  - You have existing LTA protection
  - You take your benefits before 6 April 2016
  - The value of your benefits is less than the LTA when you take them (remember the LTA will increase with CPI from 2018)
- If the value of your benefits is at least £1m on 5 April 2016 you should consider applying for IP16
- If you expect the value of your benefits at retirement to be more than £1m you should consider whether FP16 would be appropriate
- If your benefits at retirement exceed your LTA a tax charge (55% / 25%) will be payable

Next steps

Next Steps – PIP allowance 2015/16

- Review your pension contributions for the current 2015/16 tax year to see if you have excess savings. Remember to take into account any ‘carry over’ that might otherwise be lost
- Consider increasing your contributions for February and/or March to max out on employer and employee contributions
- Your March contributions will be paid before 5 April so they will count towards the 2015/16 PIP
- Coming soon – an online modeller to help you calculate how the tax changes may impact you
- You can increase your employee contributions significantly and you can also make one off lump sum AVCs
- From April 2016 we’re intending to allow all employees to contribute as low as 1 or 2% employee contributions. Telefónica will then contribute 2 or 4% respectively
- Remember you need to make this change before the 1st of the month in which you want the change to take place

Annual Allowance

- What happens if you are impacted by the tapered annual allowance rules?
  - You might have unused AA which can be carried forward from previous years
  - You could reduce your pension contributions to ensure that your pension savings are below your personal annual allowance limit
    - The practicalities of new lower limits being introduced
  - You could continue unchanged to benefit from the matched employer contribution and pay the tax charge

Lifetime Allowance

- Take steps to assess if you should register for Fixed or Personal protection
- Consider applying for Individual protection if you are eligible
- If in doubt get financial advice – this is complicated

Where to find out more?

- About my Telefónica pension:
  - http://www.telefonicapensions.com
- Our learning zone guide on pension taxation changes. Click here or visit the below and select ‘Make your Mark’:
  - https://www.o2learningzone.com
- I’m not a pension expert
  - Independent financial advice – find local advisers at:
  - https://www.unbiased.co.uk
  - Free and impartial Government advice service:
  - https://www.pensionwise.gov.uk
- What if I’ve lost touch with my old scheme?
  - Use the Pension Tracing Service
  - https://www.gov.uk/find-lost-pension

Q&A – your chance to ask

Reliances and limitations

- This webinar is intended to provide a high level overview of the proposed changes to pension taxation announced in the Summer Budget 2015. The Company is unable to give you advice on whether you are impacted by the changes to pension taxation. If you need advice you should contact an independent financial adviser. The final regulations setting out the changes will not be available for some time and changes could be made which affect the information in this webinar as the legislation progresses through Parliament.