BIG CHANGES TO PENSIONS IN THE 2015 BUDGET

In his Summer Budget, the Chancellor announced some big changes to pension taxation limits.

JARGON BUSTER

Lifetime Allowance (LTA) – The total amount of pension savings you can make over your lifetime without incurring a tax charge.

Annual Allowance (AA) – The total amount of pension savings you can make over the year (or Pension Input Period, as below) without incurring a tax charge.

Pension Input Period (PIP) – The period over which you calculate the annual amount of pension savings made to a pension scheme.

HM Revenue and Customs (HMRC) – The Government department that administers and collects taxes.

What's happening from April 2016

The amount of pension savings built up over a lifetime without tax charges will be reduced.

The amount of tax-free annual pension savings that higher earners can make will be further restricted.

In the meantime, there might be an opportunity to put in more pension savings this year than was previously possible.

The Lifetime Allowance (LTA) is being reduced to £1m. In common with previous reductions, we expect HMRC to offer individuals the chance to protect their current position. This means some potentially complicated decisions for people in the next few months about their future pension provision, particularly for those who might be affected by the new annual restriction as well (see below).

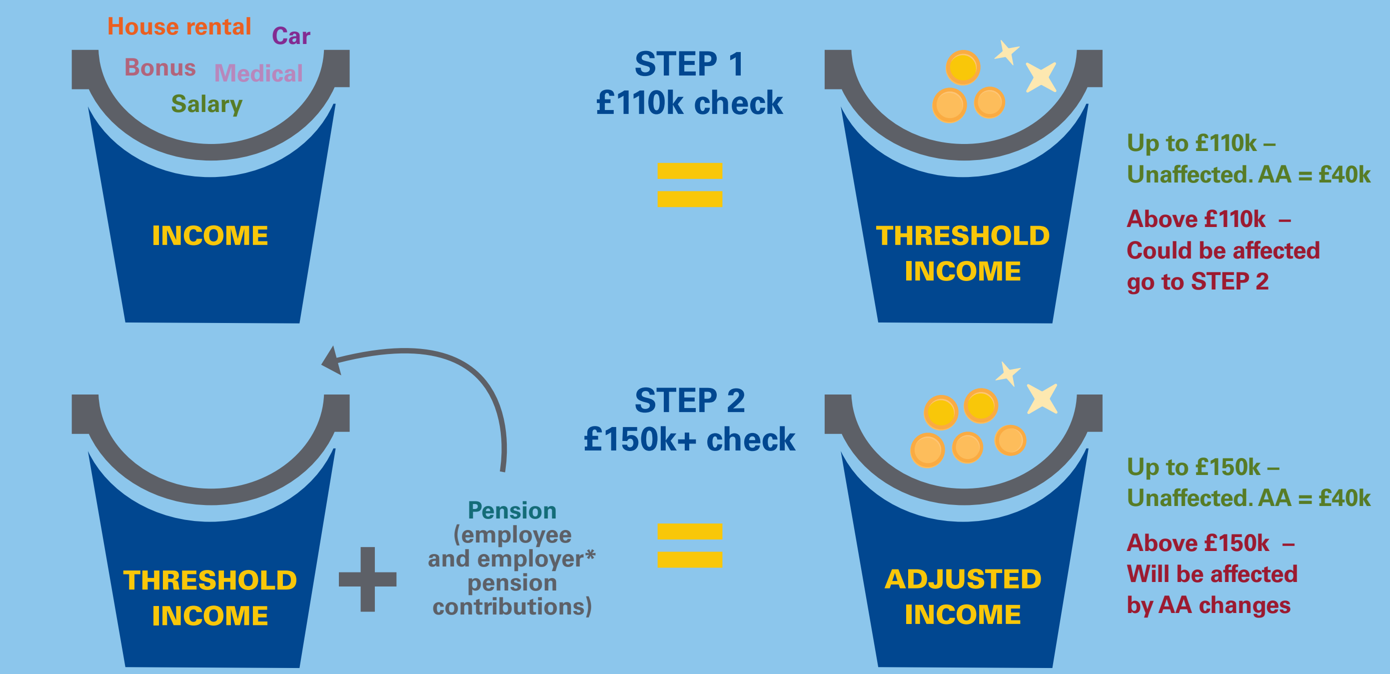
£1m

Currently, the Annual Allowance (AA) is £40,000. From April 2016 there may be restrictions on how much pension savings you can get tax relief on, depending on what you earn.

£110k

If your earnings are more than £110k you could be affected. 'Earnings' includes all income subject to tax, which means your basic salary plus any other benefits from your job, as well as income from investments such as property. This is known as Threshold Income.

How do you know if you're affected?



* Employer contributions in a defined benefit scheme are the pension savings as calculated for AA purposes minus the employee contribution.

£150k- £210k

The limit on tax relief will reduce gradually from £40,000. For every £2 of adjusted income over £150k, your AA reduces by £1.

£210k +

For those whose adjusted income is more than £210k, the AA will be £10k.

In the lead up to April 2016, there is the potential for most people to save more into their pension. How much more will depend on your circumstances.

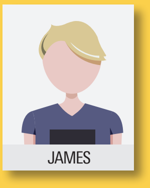
At the moment, the level of pension savings that is tested against the AA is measured over a Pension Input Period (PIP). The PIP does not necessarily match the tax year.

The Government wants to move all PIPs to match the tax year from April 2016. To help with this move, the Government has doubled this year's AA to £80,000.

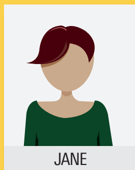
£80k

WARNING: It's not quite as generous as it seems. There is a limit of £40,000 for the period from 9 July 2015 (the day after Budget day) to 5 April 2016. So your scope to pay more depends on how much you had paid in before the Budget.

FOR EXAMPLE



PRE BUDGET PENSION SAVINGS	POST BUDGET ALLOWANCE
£17,000	£40,000



PRE BUDGET PENSION SAVINGS	POST BUDGET ALLOWANCE
£61,000	£19,000

WHAT SHOULD I DO NOW?

You may want to think about whether these changes might affect you. HMRC has published some guidance on the new restrictions. If you think the restrictions might affect you, you should consider taking independent financial advice.

For further details, please see HMRC's guidance.