Pensions administration

FA2 August 2015 edition

Web update 3: 04 March 2016

Please note the following update to your copy of the August 2015 edition of the **FA2** study text:

Chapter 2, section D4, page 2/11

Please amend this section so that it reads as follows (additional text in **bold**):

The summer budget on 8 July 2015 announced that from 6 April 2016 for higher earners the annual allowance is to be subject to a tapered reduction. Broadly this will mean that individuals whose income, (including the value of their pension savings) is over £150,000, will have their annual allowance cut by £1 for every complete £2 their income exceeds £150,000. The maximum reduction will be £30,000 for individuals whose income is over £210,000. The tapered AA won't however apply where the individual's net income for the tax year, is £110k or less. Net income for this purpose includes the value of any income given up for an employer pension contribution via a salary sacrifice arrangement entered into after 8 July 2015.

To accommodate this change pension input periods (PIPs) from 2016–17 onwards will be aligned with the tax year and from 9 July 2015 all PIPs are fixed by legislation and can't be amended. Transitional rules for 2015–16 apply from 8 July. This is to protect savers who might otherwise be impacted by the alignment of their pension input. It does offer simplicity as from April 2016 both the annual allowance and the tax relief on the individual's contributions will be measured across a tax year.

These transitional rules themselves add some immediate complexity but do allow some to pay more than expected. The transitional PIP rules are that:

- All open PIPs ended on 8 July 2015 and count against the individual's 2015/16 AA.
- A new PIP runs from 9 July 2015 to 5 April 2016.

Therefore, some plans could have as many as three different PIPs for the 2015/16 tax year. For example:

- **A first PIP – 1 June 2014 to 30 May 2015.**
- **A second PIP – 1 June 2015 to 8 July 2015.**
- **Post-Budget PIP – 9 July 2015 to 5 April 2016.**

It can mean anything already paid before 9 July 2015 is disregarded, allowing up to £40,000 to be still available for pension savings in the 'post-Budget' PIP from 9 July 2015 to 5 April 2016. It is expected that members subject to MPAA may also have an additional allowance of £10,000 for this period but, unlike those subject to the standard, would not also have any potential carry forward. Defined benefit schemes will have special rules to avoid a need to have valuations done on 8 July 2015.

The legislation for the changes will be included in the second Finance Bill of 2015.