

July 2015 Budget Summary

George Osborne delivered his seventh Budget on Wednesday 8 July 2015.

As predicted the main change affecting the pensions industry is a reduction in the annual allowance for those with high incomes.

However, a potentially greater impact could result from the outcome of the consultation on pensions tax relief.

Here's our summary of the changes with links to Treasury or HM Revenue and Customs if you would like more detail.

Personal allowances

[HMRC - Summer Budget 2015 - Overview](#)

The personal allowance was scheduled to increase to £10,800 from 6 April 2016 and to £11,000 from 6 April 2017 with the increases in the point at which higher rate tax is paid rising to £42,700 and £43,300 respectively.

The Chancellor announced that the increase to £11,000 will in fact be brought forward to 6 April 2016 and the increase will be to £11,200 from 6 April 2017, with higher rate tax applying to taxable incomes over £43,000 and £43,600 respectively.

Our view

Royal London welcomes the announcement in the Budget today of a Green Paper which will review the tax treatment of pensions. We hope that the outcome of the review will be a settlement to which all those involved in pensions can sign up. We hope that the resultant consensus will last a generation or more and certainly longer than the next Government.

It is important that during the period of the review Government maintains confidence in automatic enrolment which is already transforming the savings habits of thousands and particularly those starting out in work. It is also vital that the distinction between short-term savings in ISAs and long-term savings in pensions is preserved.

Increase in the Inheritance Tax threshold

1.217 to 1.221 of [HM Treasury - Summer Budget 2015](#)

As widely heralded, an inheritance tax threshold for a family home will be introduced from 6 April 2017.

A family home allowance of £100,000 from 2017/18 (rising to £175,000 in 2020/21) will be added to the standard individual threshold of £325,000, eventually raising the threshold to £500,000 where a family home is being passed on. There is no inheritance tax on transfers to spouses or civil partners, so no inheritance tax applies on death where assets are passed on to the surviving spouse/civil partner. The 'unused' inheritance tax threshold on that first death can be passed on

to the survivor, thereby doubling the threshold available on their death. Properties worth up to £1 million (from 2020/21) could therefore be passed on to children without inheritance tax being due on the property.

Reduction in annual allowance

2.83 of [HM Treasury - Summer Budget 2015](#) and [HMRC - Transitional provisions for aligning pension input periods](#)

Again as predicted, the annual allowance for those with taxable income over £150,000 will reduce by £1 for each £2 of income over £150,000, with a maximum reduction down to £10,000. A £10,000 annual allowance will therefore apply to all taxable incomes over £210,000. This will apply from 6 April 2016.

In advance of the introduction of this tapered annual allowance, transitional rules have been introduced immediately to align all pension input periods with the tax year. Savings already made will be protected from retrospective tax charges.

All pension input periods open on 8 July 2015 ended on 8 July 2015. The next pension input period now runs from 9 July 2015 to 5 April 2016. Some complex transitional arrangements have been introduced that are explained in the technical note.

Consultation on pensions tax relief

[HMRC - Transitional provisions for aligning pension input periods](#)

The Chancellor has published a consultation on the future for pensions tax relief. The consultation document makes clear that the result of the consultation could range from maintaining the status quo to moving from the current Exempt-Exempt-Taxed approach to Taxed-Exempt-Exempt with a Government contribution top-up. This could also result in less radical changes such as retaining the current system and altering the annual and lifetime allowances.

Consultation responses must be received by 30 September 2015.

Taxation of lump sums death benefits

[HMRC - Taxation of lump sum death benefits](#)

Currently where someone dies aged 75 or over, tax on lump sum death benefits is 45% for deaths before 5 April 2016.

The Budget confirms that for deaths after 5 April 2016, tax on these lump sums will be at the recipient's marginal rate of tax. Where the recipient is a trust or company and so doesn't have a marginal rate, the 45% charge will continue to apply.

Lifetime allowance

2.82 of [HM Treasury - Summer Budget 2015](#)

The Chancellor confirmed that the lifetime allowance will reduce from £1.25 million to £1 million from 6 April 2016. Transitional protection will be introduced to ensure the change is not retrospective.

Salary exchange

1.197 of [HM Treasury - Summer Budget 2015](#)

Before the Budget there was speculation the Government was thinking about radically altering or even completely removing the ability to fund employer pension contributions through salary exchange arrangements. However what they have said is that at this time they will actively monitor the growth of these arrangements and their effect on tax receipts.

Pension transfers

1.228 of the [HM Treasury - Summer Budget 2015](#)

The Government will consult before the summer on how the process for transferring pensions could be made quicker and smoother. This will include looking at the issue of excessive exit penalties.

Pension Wise

2.85 of the [HM Treasury - Summer Budget 2015](#)

The Government is extending access to the Pension Wise service to those aged 50 and above and launching a nationwide marketing campaign.

Secondary market for annuities

2.81 of the [HM Treasury - Summer Budget 2015](#)

The Government has decided to delay the introduction of this measure until 2017. It will set out further plans in the autumn.