

FB 2021-22 - Pensions

Lecture P1292 – 12.22 minutes

The tax reliefs for pension contributions remain unchanged.

As announced in the March 2021 Budget, the Lifetime Allowance, which is the maximum amount that a person can save in tax-advantaged pension schemes before extra tax charges arise on drawing benefits and at the age of 75, is frozen at its 2020/21 level of £1,073,100 until the end of 2025/26.

Liability for annual allowance charge

Contributions to a registered pension scheme by individuals and their employers are restricted by the Annual Allowance (AA). Where this is exceeded, an AA charge arises.

The taxpayer can choose to ask the pension scheme to pay an AA charge if it exceeds £2,000, reducing the future pension benefits instead of having to meet the liability personally.

The current provisions state that the individual must notify the scheme administrator no later than 31 July in the year following that in which the tax year ends. The scheme administrator must then report this to HMRC in the Accounting for Tax (AFT) return for the quarter ended 31 December in the same year, which has to be delivered by 14 February in the following year (ie within 45 days).

Under Clause 9, the default position will remain the same so that the normal notification date is not changing. However, it is acknowledged that this deadline may not be achievable in some cases, such as where there is a delay in the individual receiving the information that shows they are liable to the charge.

Where the individual receives the information during the 'relevant time' then the notification deadline is extended. The 'relevant time' means a time falling on or after 2 May in the year following that in which the tax year in question ends and before the end of the period of 6 years beginning with the end of the tax year in question.

If this applies, the individual must give the notice before the earlier of:

- The end of 3 months beginning with the day on which they receive the information;
- The end of 6 years from the end of the tax year in question.

The administrator then has until the end of the period following the period in which they receive notification to include the charge in their AFT return, if this is later than the normal deadline.

For example, if a pension administrator notifies a taxpayer that they have a charge arising for 2020/21 but does not tell them until 15th December 2022, this would need to be notified to the administrator by 14th March 2023 and would be included in the AFT return by the pension fund for the period ended 30 June 2023, with the charge being due 14 days after the end of this quarter.

The new rule takes effect from 6 April 2022, but it also has retrospective effect to 6 April 2016.

The scheme administrator may elect for the tax due to be treated as being due in an earlier period although it is unclear when this might be something that would be of benefit to the pension fund.

Increase in normal minimum pension age

The minimum age at which most people can first access their tax-advantaged pension scheme benefits is 55. Under Clause 10, this will be increased to 57 with effect from 6 April 2028 and will therefore affect those who are born on or after 6 April 1973.

This is the date at which the state pension age for all will be 67 so this is 10 years before the state pension age.

This does not apply to members of a uniformed services pension scheme (being members of the armed forces including reservists, police and firefighters) and there is protection for pension savers who had a right to take their pension at a particular age which was confirmed on or before 22 April 2021. The way the protection operates is not straightforward but individuals are likely to be notified by their pension funds if the new minimum pension age will not apply to them.

The Explanatory Notes state that there will be some transitional issues addressed before this legislation becomes live for example where an individual does not have a protected pension age, has reached 55 before 6 April 2028 and has started but not completed the process of taking pension savings.

Public service pension schemes

The public sector pension scheme was reformed in 2015 but the changes were challenged successfully on the basis that there was age discrimination and potential indirect sex and race discrimination. Amendments were made to remedy the anomalies (which include some choices being made by those affected) and the Government has been consulting on various aspects of this, including the tax treatment.

Clause 11 gives the power to put in place regulations to modify 'relevant tax enactments' (which are specified) as it applies to 'relevant persons' in connection with the rectification provisions.

A relevant person is someone who:

- Had pensionable service during the period 1 April 2015 and 31 March 2022 under a public service pension scheme (called 'remediable service'), subject to certain conditions;
- Has any rights or obligations relating to someone else's remediable service (this is most likely to apply to scheme dependents); or
- Owes an amount (e.g. contributions) or is owed an amount (e.g. compensation) relating to the rectification of the unlawful discrimination which arose from the reforms.

Examples of the likely changes which may be introduced by secondary legislation include:

- Provision of an exemption from tax on compensation an individual may receive if, following the remedies, they are still owed money;
- Allowing an individual to protect their pension rights from lifetime allowance charges calculated on the higher of the two pension choices available to them;

- Additional annual allowance being made available so that an individual will not pay more annual allowance charge than they would have done if they had accrued their chosen benefits in the relevant tax years;
- Where a scheme has paid lifetime allowance or annual allowance charges on behalf of the individual, but that accrual is now under a different scheme, for the payment to be deemed to have been paid by the latter scheme; and
- Ensuring that payments of pensions and lump sums that would have been authorised payments had they been made at the relevant time, are treated as meeting the conditions to be authorised.