ADVISER FACTSHEET

JAMES HAY PARTNERSHIP

Tech Talk

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Budget 2016 – Further Information

Contents

For professional advisers only

Lifetime ISA

From April 2017, any adult under 40 will be able to open a new Lifetime ISA. Up to £4,000 can be saved each year and savers will receive a 25% bonus from the Government on this money. The bonus will, however, only apply to savings made before aged 50.

Money put into this account can either be saved until the person is over 60 and used as retirement income, or can be withdrawn to help buy a first home up to the value of £450,000. In both instances the bonus and any growth on it will be retained.

Money can be withdrawn at any time before aged 60 but if this is done it will lose the bonus and any interest (and growth on the interest), The Government has suggested it may review this if funds are withdrawn for other life events. There will also be a 5% charge on this early withdrawal.

If the individual also has a Help to Buy ISA they can transfer those savings into the Lifetime ISA in 2017, or continue saving into both. However they will only be able to use the bonus from one to buy a house.

The total amount that can be saved each year into all ISAs will also be increased from £15,240 to £20,000 from April 2017.

New tax allowances

From April 2017, there will be two new tax-free £1,000 allowances – one for selling goods or providing services, and one for income from property you own.

People who make up to £1,000 from occasional jobs – such as sharing power tools, providing a lift share or selling goods they have made – will no longer need to pay tax on that income.

In the same way, the first £1,000 of income from property – such as renting a driveway or loft storage – will be tax free.

Employers will pay National Insurance on pay-offs above £30,000 from April 2018

From April 2018 employers will need to pay National Insurance contributions on pay-offs (for example, termination payments) above £30,000 where Income Tax is also due.

For people who lose their job, payments up to £30,000 will remain tax-free and they will not need to pay National Insurance on any of the payment.

Class 2 National Insurance contributions (NICs) to be scrapped from April 2018

Currently, self-employed people have to pay Class 2 NICs at £2.80 per week if they make a profit of £5,965 or over per annum. They also pay Class 4 NICs if their profits are over £8,060 per annum.

From April 2018, they will only need to pay one type of National Insurance on their profits, Class 4 NICs which will also be reformed so self-employed people can continue to build benefit entitlement.

Strengthening the incentive to save: consultation on pensions tax relief

This contained a summary of the responses received from the 450 respondents to the consultation. Given the potential for a major overhaul of pension tax legislation, more comment from Government was expected.

Other pension changes

The following changes will be introduced in the Finance Bill 2016 to amend the Finance Act 2004:

Serious ill health lump sum

Under current legislation this lump sum can only be paid from uncrystallised funds where the member has a life expectancy of less than one year. The tax treatment of the lump sum depends on the age of the member. Where the member is under age 75 it is paid tax free, otherwise it is subject to a 45% tax charge.

The change being introduced will mean that where the member meets the necessary conditions and has accessed their pension, they will be able to take the remaining funds that have not been accessed as a serious ill-health lump sum. In addition, where the member is aged 75 or over the lump sum will be taxed at the member's marginal rate of income tax rather than a flat rate of 45%.

The payment of this lump sum will still be subject to scheme rules.

Dependant's drawdown (including flexi-access drawdown)

Under current legislation a dependant's drawdown pension paid to the deceased member's child had to stop when the child attained age 23. If the child were to continue receiving payments from the drawdown fund beyond 23 then penal tax charges would apply.

The change being introduced ensures that the child will be able to continue with dependant's drawdown beyond 23 without suffering the penal tax charges. This aligns their tax treatment with that of a nominee of the member.

Charity lump sum death benefit

Under current legislation where a member dies before age 75 leaving no dependants, then this lump sum may be paid to a charity tax free from the deceased member's drawdown fund.

This rule is being removed because the equivalent tax free payment may be made as another type of lump sum death benefit. The need to pay the other types of lump sum death benefit e.g. an uncrystallised funds lump sum death benefit or drawdown pension fund lump sum death benefit within two years when it is paid to a charity is also being removed.

Trivial commutation lump sum

Under current legislation this lump sum can be paid out of defined benefits funds whether or not the funds have been accessed.

A change is being made so that a trivial commutation lump sum may be paid out of a money purchase scheme pension that is already in payment.

Uncrystallised funds lump sum death benefit and cash balance arrangements

The change being introduced will ensure that where a member dies and the scheme must top-up the remaining funds to meet the entitlement of the member's beneficiaries to an uncrystallised funds lump sum death benefit under the scheme rules, the full amount of the lump sum death benefit will be an authorised payment.

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Further information

Visit the Technical Hub for further information:

www.jameshay.co.uk/technicalhub

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