

The Lifetime SIPP

Summary of Relevant Budget Announcement 16th March 2016

All items are edited text from the Budget 2016 publication on HM Treasury website.

Technical Changes Relevant to Pensions

Lifetime Allowance

The Lifetime Allowance will reduce from £1.25 million to £1 million, effective from April 2016.

Commercial Property Stamp Duty

Currently, SDLT rates on freehold and lease premium transactions operate on a slab system, where one tax rate is due on the entire transaction value. These rates will be reformed to a slice system, so that SDLT is payable on the portion of the transaction value which falls within each tax band. The new rates will be 0% for the portion of the transaction value between £0 and £150,000; 2% between £150,001 and £250,000; and 5% above £250,000.

The government will also introduce a new 2% rate for leasehold rent transactions where the net present value is above £5 million. These transactions are already taxed on a slice basis. All leasehold rent transactions up to £5 million will remain unaffected. As a result of these changes, over 90% of non-residential property transactions will pay the same or less in SDLT, with only 9% paying more.

Ill Health Lump Sums

Serious ill-health lump sums with lump sum death benefits, can now be paid tax-free (when the provider is content to do so) when someone aged under 75 has less than a year to live but has already accessed their pension (this brings it in line with death benefits).

Such changes will also make serious ill health lump sums taxable at an individual's marginal rate when paid in respect of individuals aged 75 and over.

Dependants' flexi-access drawdown accounts will be converted into nominees' accounts when dependants turn 23. Consequently funds do not have to be taken as a lump sum taxed at 45%.

Finally it will allow defined contribution pensions already in payment to be paid as a trivial commutation lump sum, where total pension savings would be under £30,000

Undrawn pension funds in drawdown

The government will legislate to ensure a charge to inheritance tax will not arise when a pension scheme member designates funds for drawdown but does not draw all of the funds before death. This will be backdated to apply to deaths on or after 6 April 2011.

Pension Advice Allowance

The government will consult on introducing a Pensions Advice Allowance. This will allow people before the age of 55 to withdraw up to £500 tax free from their defined contribution pension to redeem against the cost of financial advice.

Items Relevant to (Potential) SIPP Holders

Guidance to the public

The government will restructure the statutory financial guidance providers – the Money Advice Service, The Pensions Advisory Service and Pension Wise – to ensure that consumers can access the help they need to make effective financial decisions. This will create a new pensions guidance body, to make sure that consumers can get all their pensions questions answered in one place, at all stages of their lives.

Lifetime ISA

The Budget announces that from 6 April 2017 any adult under 40 will be able to open a new Lifetime ISA. They can save up to £4,000 each year and will receive a 25% bonus from the government on every pound they put in. Funds can be used to buy a first home with the government bonus at any time from 12 months after opening the account, and can be withdrawn from the Lifetime ISA with the government bonus from age 60 for use in retirement. The overall annual ISA subscription limit will be increased to £20,000 from 6 April 2017.

The government will consider whether Lifetime ISA funds plus the government bonus can be withdrawn in full for other specific life events in addition to buying a first home. The government proposes that savers can make withdrawals at any time for other purposes, but with the bonus element of the fund plus any interest or growth on it returned to the government, and a small 5% charge applied. The government will also explore with the industry whether there should be the flexibility to borrow funds against the Lifetime ISA without incurring a charge if the borrowed funds are fully repaid. In the US some retirement plans allow 50% to be borrowed up to a maximum of \$50,000.

Dashboard

The government will ensure the industry designs, funds and launches a pensions dashboard by 2019. A pensions dashboard is a digital interface where an individual can view all their retirement savings in one place.

Claims Management Companies

Following an independent review Claims Management Company managers can be held personally accountable for the actions of their businesses. In order to ensure that the new regulatory regime is implemented effectively, the government intends to transfer responsibility for regulating CMCs to the Financial Conduct Authority.