BURGES SALMON

Budget 2016 – LISA v Pension

April 2016

Headlines:

- new Lifetime ISA ("LISA") available to under 40s from April 2017
- pensions tax relief unchanged for now
- lifetime allowance confirmed as down to £1m (from £1.25m) for the 2016/17 tax year, with protections available for those already over the new limit
- unchanged annual allowance but complex new regime for high earners from 6 April 2016
- pensions salary sacrifice continues and, unlike some forms of salary sacrifice, appears safe from further change for now
- shake-up of financial guidance and advice with knock-on impacts on disclosure requirements for pension schemes, and an increased tax break for employer-funded financial advice
- increased incentive to pay termination payments into pension schemes as there will be employer NICs on payments over £30,000 from April 2018
- technical changes to make certain aspects of last year's flexibilities work better
- tax rules on bridging pensions to be aligned with new single-tier State pension
- employers participating in public sector pension schemes will pay higher contributions from 2019-20
- Pensions Dashboard to be funded by the industry so individuals can view all their pensions at once

As you were, for now

The lack of change to the pensions tax regime will be welcome news to employers and trustees, particularly whilst last year's major pensions and tax legislative changes continue to bed in.

The Chancellor has not given up on revolutionising pensions tax relief, merely held off for now. The response to the consultation consisted of a summary of the views received and an assertion that there was no consensus. A substantive Government response was conspicuous by its absence.

It may be that the LISA is being used to test the water and that we will see more and bigger of the same in the future. There was no mention of auto-enrolment, which may be telling. Could there be a change of policy to come?

LISA versus pension

We compare LISAs and pensions.

	LISA	Pension	Comment
Upper age limit	40 to open, 50 for tax relief	None but benefits treated as crystallising at 75 for LTA	Pensions more flexible e.g. may be useful in last years of working
Minimum age to draw	60 except for first house purchase but crucially can draw any time if sacrifice bonus and pay 5% charge	55 but set to increase in line with SPA to stay 10 years behind Earlier payment for ill health	LISA's main attraction is access, though higher age for penalty free access Government may allow repaying LISA early access charge to regain bonus Same access on serious ill health as with pension. What about ill health without a terminal diagnosis?
Tax relief on contributions	Effective 20% rate	Marginal rate	Higher rate taxpayers benefit more from a pension
Annual allowance (AA) for tax relief	Up to £4k a year Forms part of £20k annual ISA limit	Up to £40k AA but tapers down to £10k for high earners – complicated to work out £10k DC AA after drawing benefits flexibly	High earners eligible for both can save in both

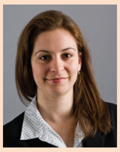
continued

	LISA	Pension	Comment
Lifetime allowance (LTA)	No maximum	Subject to any protection, £1m (indexed in future)	LISA attractive for anyone who may reach pensions LTA in future but LISA pot will be small by comparison
Tax during growth phase	None	None	
Tax when drawn	None	25% tax free when drawn, remainder taxed at marginal rate	Pension: tax deferred until retirement and 25% tax free LISA: no tax relief on contributions but 20% of input amount is tax free Pension is more attractive
Inheritance tax	Can be transferred tax-free to spouse's ISA on death Otherwise part of estate and subject to inheritance tax if above threshold	Tax depends on type of benefit but DC benefits tax free on death before 75 and taxed at marginal rate afterwards Not subject to inheritance tax if paid under discretion DC pot can be taken as pension or lump sum, or remain invested to pass down the generations	Pension potentially more flexible Much depends on date of death, form of benefits and recipient
Employer contribution	None Potential for flexible benefits packages to offer portion of salary for ISA/LISA	Auto-enrolment requires minimum employer and usually employee contribution, both due to increase. Employer contribution may be above minimum Salary sacrifice permitted, with NIC saving for employer and employee	Is future of auto-enrolment in doubt? LISA said by Government to be particularly good for self-employed For those eligible for both, choice of where to save above pension minimum may be difficult
Future proofing against policy change	With tax already paid and bonus received at end of tax year, fairly certain. Expect annual amounts and ages to be changed in future, and maximum lifetime pot size	History shows Government likely to change reliefs and conditions for future saving Pensions tax relief still under consideration	

Nothing in this briefing is intended to be financial advice.

Contact

If you would like more information, please get in touch with you usual contact in our pensions team or:



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