



NEWSLETTER 16 JULY 2010

I will be out of the office from Monday 2 August to Friday 6 August inclusive on holiday.

VAT FLAT RATE SCHEME

As notified in last month's post Budget Newsletter, the VAT rate will increase on 4 January 2011 to 20%.

- Small businesses that currently use, or are considering using, the VAT flat rate scheme will be affected by changes announced in the 2010 Budget. Please increase the percentage you apply by 1.5% for all invoices dated 4/1/2011 and after (i.e. those with 20% VAT).

PENSION ANNUITIES NO LONGER TO BE COMPULSORY

The government has announced that people will no longer be obliged to buy an annuity with their pensions.

Under the present rules, anyone with a personal or company pension reaching the age of 75 must purchase an annuity. The annuity would then provide the fund member with a guaranteed pension income. Although it possible to take 25 per cent of a pension pot as a lump sum, the remainder must go towards funding the annuity.

However, industry experts have argued that the arbitrary deadline forces some retirees into buying an annuity when market rates are low, so reducing the benefits to the pension scheme member.

In the emergency Budget, the government had promised to raise the age for mandatory annuities from 75 to 77. But the new consultation document has laid out plans to scrap compulsory annuitisation altogether.



Mark Hoban, the financial secretary to the Treasury, said that the "simplified" rules, which will be introduced in April 2011, would give investors the freedom to choose between taking their pension assets as a lump sum or as drawdown income.

Under the new proposals, a two-track solution will be introduced whereby investors can choose between capped or flexible drawdown schemes. For the capped option, individuals will be able to choose how much to draw down annually from their pension pot throughout their retirement, subject to a set limit, or whether to draw any income at all.

The flexible option will mean that, if an individual satisfies a minimum income level, they will be able to draw down unlimited amounts from their pension pot. Additionally, the dropping of the 75 age limit will free up people to purchase an annuity at a time that enables them to maximise the income they can get.

It is not believed that the move will adversely affect the existing annuity market as many retirees will continue to use their pensions to buy guaranteed incomes.

Maggie Craig, the director of life savings at the Association of British Insurers, said: "For the vast majority of people, buying an annuity is the right choice, as it provides a guaranteed income for the rest of their lives.

"The government's consultation is an opportunity to put a framework in place that works for all consumers, but it is vital that any new measures protect the principle that pension savings are primarily intended to provide an income in retirement."

The plans will also see unused pension funds removed from inheritance tax charges. Currently, the amount left in a pension fund by some aged over 75, who then dies, is subject to a 70 per cent unauthorised payment charge and inheritance tax at 40 per cent on the remaining money.

As from next April, any unused funds remaining upon death will be taxed at a proposed 'recovery rate' of 55 per cent, with no liability to inheritance tax. There will be no tax levied on an untouched pension pot if the individual dies before the age of 75.

The government has invited views from the pensions industry and professional advisers, and particular attention will be paid in the consultation to the level of the annual drawdown limit under the capped model and to the minimum income requirement under the flexible proposal.

Mr Hoban said: "The minimum income level has been left open as a matter for discussion, but we are keen to avoid people falling back on the state by burning through their pension pot too quickly."

Although inheritance tax will not apply to any unused pension funds, the government will monitor the system to make sure that people do not accumulate a large pension pot in order to reduce their inheritance tax liabilities.

The consultation closes on 10 September, and the legislation is expected to come into force on 6 April 2011.