Channel Island Budgets: Pension changes

BWCI

Location | PO Box 68, Albert House, South Esplanade, St Peter Port, Guernsey, GY1 3BY

Tel | +44 (0)1481 728432

Fax | +44 (0)1481 724082

Web | www.bwcigroup.com

"1,050 individuals will see their allowances reduced"

Debra Smith
dsmith@bwcigroup.com

Guernsey and Jersey both released their 2019 budget proposals on 9 October. These will be debated in the relevant States later in the year.

Each island is proposing some changes that will affect pensions, although Guernsey's list is rather longer than Jersey's!

Guernsey budget

Aspect	Detail
Tax-free element of lump sums	After age 50 a person may take a cash lump sum of up to 30% of their fund value; the lump sum is tax-free up to a monetary limit. The 2018 limit is £194,000 and historically has been set by reference to Civil Service pay scales. This linkage caused problems this year as the pay award had not been agreed at the start of the year and a retrospective increase had to be applied. **To avoid this going forward, it is proposed that the limit will in future be set annually as part of the Budget process; an increase in the limit to £198,000 is proposed for 2019.**
Definition of acceptable pension contribution for tax relief	**Guidance on what pension contributions will be eligible for tax relief will be issued and applicable from 2019.** It is proposed that: ■ a monetary amount must actually be paid into a scheme to be eligible for tax relief; in specie contributions will not receive tax relief ■ transfers from other pension arrangements are not contributions for tax purposes ■ contributions that derive from benefit payments from approved pension schemes will not receive tax relief

Triviality provisions	**An increase in triviality limits is proposed** as follows:
	■ increasing the limit from £30,000 to £50,000 for members aged 50 or over
	■ introducing triviality limits for funds in drawdown where the fund is less than:
	    ■ £50,000; or
	    ■ £100,000 and the individual has a guaranteed minimum retirement income of £20,000 pa
	
	We await further detail as to what will constitute "guaranteed minimum retirement income".

Transfers to UK Schemes	Currently all transfers to UK approved schemes are exempt from income tax, regardless of where the individual is resident. **It is proposed to restrict this tax exemption on transfers to the UK to just those individuals resident in the UK at the time of the transfer** (unless the individual has not at any time been resident in Guernsey).
End of Service and Gratuity Schemes	In 2017 the States approved the introduction of regulation for pensions and "end of service/gratuity" schemes but, at the time, no changes were made to the Income Tax Law. **It is now proposed that section 40 of the Income Tax Law is amended to introduce a specific tax exemption for such regulated products where the beneficiaries are non-resident and all income of the trust is non Guernsey source** (apart from Guernsey bank interest).
Mortgage Interest Relief	Currently individuals may claim Mortgage Interest Relief on their principal private residence if the loan is from a Retirement Annuity Trust Scheme ("RATS"). This is because technically the money has been borrowed from an "individual resident in Guernsey". **The budget recommends that the legislation is changed to make it explicit that Mortgage Interest Relief is not available if the loan is from a trust, effective from 1 January 2019.**
High earners tax relief	In the 2018 Budget the States agreed that personal allowances and other allowances/deductions would be withdrawn at a rate of £1 for every £3 that a person's income exceeds the Upper Earnings Limit for social security contributions (£142,896 pa in 2018). **For 2019 the Policy & Resources Committee is recommending that the withdrawal threshold is lowered to £100,000 and the withdrawal ratio is decelerated to a rate of £1 for every £5 that a person's income exceeds the withdrawal threshold.** The impact of this will depend on an individual's income and their starting tax allowances. We have provided an illustrative example opposite.

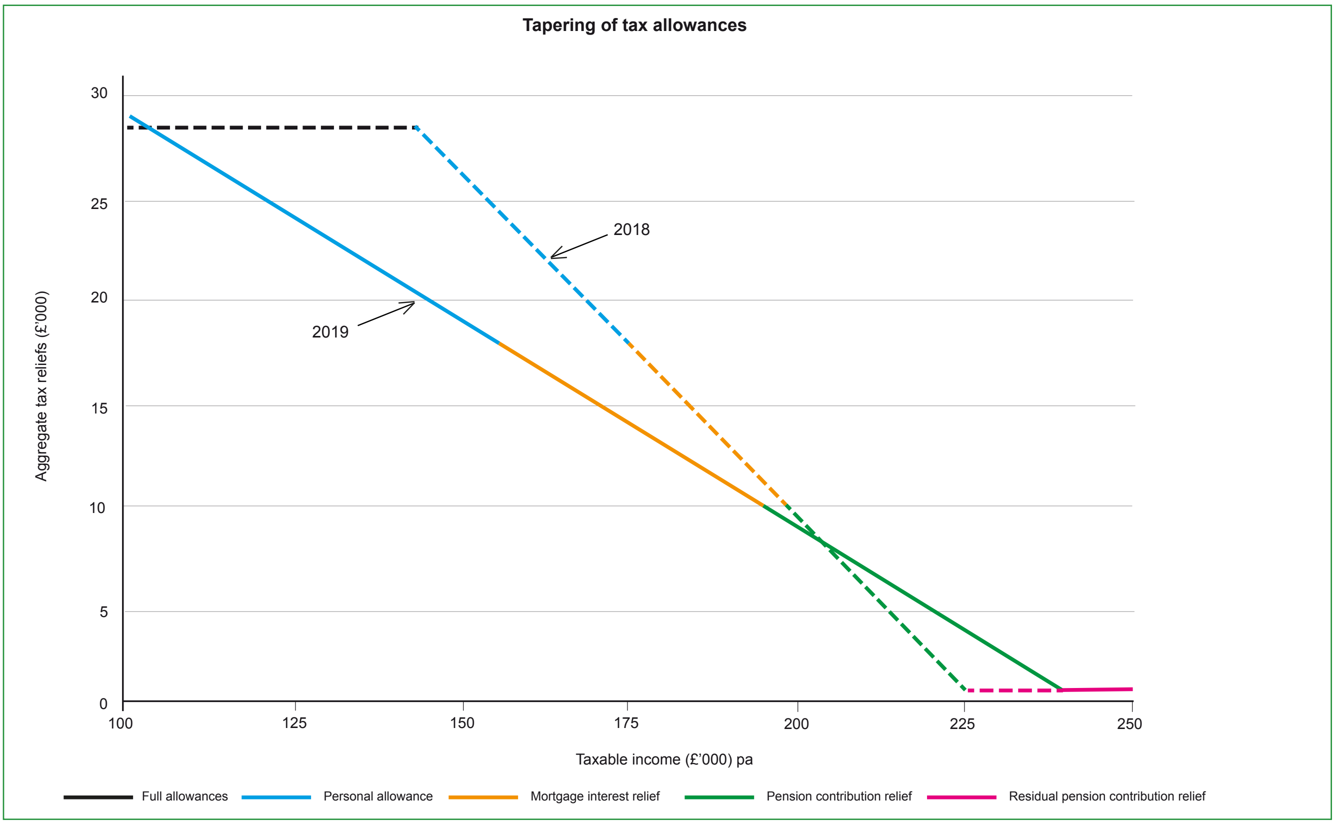
Guernsey high earners tax relief example

The chart considers the impact of the change in the threshold and rate of withdrawal of allowances for an individual who pays £8,000 mortgage interest and £10,000 pension contributions. The chart shows that, in these circumstances, if the individual had an annual income of between £103,000 and £203,000, they would have lower aggregate tax reliefs in 2019 (after allowing for the £500 increase in personal allowance) compared to 2018. However, if they had income above £203,000 they would have higher aggregate tax reliefs in 2019 compared to 2018. The exact cross over point will depend on the individual's starting allowances (which are dependent on various factors, including whether they are paying mortgage interest and pension contributions), but the Budget report expects that:

- a further 1,050 individuals will see their allowances reduced as a result of the lowering of the threshold; and
- 150 individuals will have less allowances withdrawn in 2019.

The allowances are withdrawn in a specific order, with the personal allowance withdrawn first. In this example, mortgage interest relief is next and then pension contributions (other than a small limit of £1,000 which is not withdrawn). These elements of the relief are shown in different colours on the chart.

The 2018 position is shown as a dotted line and the solid line shows the 2019 position.



Jersey budget

The Jersey budget includes a couple of minor amendments to the tax rules relating to pensions to ensure that the rules operate as intended.

Aspect	Detail
Taxation of trivial commutation lump sums	In 2018, the restriction on paying a trivial commutation lump sum once an individual had commenced pension benefits was lifted. Since 30% of a trivial commutation lump sum is payable tax-free, this led to the situation that a person could receive a 30% tax-free lump sum from age 50, and then another 30% tax free lump sum if the value of the remaining benefits fell below the £35,000 triviality limit and were subsequently trivially commuted. This was never the intention and it is proposed that, **with immediate effect, changes will be made to the Income Tax Law to prevent individuals using the different commutation provisions to access more than 30% of their pension fund tax-free.**
Commutation post transfer	Currently, if an individual has received any level of lump sum before transferring their pension fund to another arrangement, none of the transferred fund could then be taken into account when determining the maximum future lump sum payable from the receiving scheme. **It is proposed to relax this restriction if the receiving scheme has received full details of any previous commutations from the scheme manager of the transferring Jersey scheme.**