Quattro Pensions
CONSULTING ACTUARIES

news bulletin

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Existing VAT rules to remain in place to 31 Dec 2016.

The period during which DB pension schemes can continue to use the existing VAT rules has been extended to 31 Dec 2016. (These rules are outlined in VAT Notice 700/17.)

Background

Under current VAT rules an employer can recover VAT in relation to management services provided by third parties to its pension scheme, but cannot recover VAT in relation to certain investment services.

Where a third party provides both management and investment related services but invoices for all services in aggregate an employer must only reclaim VAT in relation to the portion of the invoice deemed to relate to scheme management. An employer must be able to provide evidence of how they derived this apportionment if claiming that fees for management services exceed 30% of the total invoice.

However, in 2014 HMRC's position changed, and they stated that for VAT in relation to services to a DB pension scheme to be recoverable the employer would need to both contract and pay for the services. Clearly a problem when DB schemes are (usually) set up under Trust with Trustees contracting and paying fees for actuarial, legal, administration services etc.

Possible solutions, further problems

The most commonly suggested solution to the problem was thought to be tripartite contracts between employer, trustee, and service provider. However, concerns have been raised that this may have implications for corporation tax relief.

Another solution involved trustees paying for advisor fees, and then invoicing the employer for their (equivalent) management services.

The obvious problem with this is that not all trustee boards are VAT registered. And trustees would still retain the problem of sorting their investment services from their management services.

A third solution involved grouping a corporate pension trustee with the employer for VAT purposes. A key problem with this is that it might be possible for HMRC to pursue the pension scheme for a VAT debt on the employer. Clearly, no trustee could sign up to this risk.

What is clear is that all of the proposed solutions have some difficulties. And that's before considering the interaction of any DC arrangements. The extension to 31 December 2016 is to allow HMRC time for further consultation, and for the industry to come up with some more innovative solutions.

So it's as you were, for at least one more year.

Lifetime Allowance

The Lifetime Allowance reduces to £1m from 6 April 2016. Individuals with benefits above this limit who want to rely on Fixed Protection 2016 or Individual Protection 2016 must apply for them before taking any benefits on or after 6 April 2016.

On-line application will be available from July 2016.

Individuals wishing to take benefits between April and July 2016 must apply to HMRC in writing.