Pension changes become law

The Taxation of Pensions Bill received Royal Assent just before Parliament upped sticks for the festive season.

The second stage of Mr Osborne's radical revision of money purchase pensions became law on 17 December, the day before Parliament ended business ahead of Christmas. For such a significant piece of legislation, the Taxation of Pensions Act 2014 went through the parliamentary process at some speed: the first reading was in the middle of October.

The Act consists of just four clauses and two schedules, but it is far from brief, running to 78 pages. As a reminder, the Act:

- introduces the take-what-you-want flexi-access drawdown system, replacing both existing income drawdown and flexible drawdown regimes.
- creates the cumbersomely named Uncrystallised Funds Pension Lump Sum, which allows you to draw a lump sum from your uncrystallised pension fund as 25% tax free and 75% taxable.
- increases annuity flexibility, allowing payments to vary up and down, subject to predetermined conditions.
- makes various improvements to the treatment of death benefits, including the reduction in the rate of tax from 55% to 45% for deaths on or after age 75 and the introduction of intergenerational transfers.
- tightens the contribution rules with the introduction of a new £10,000 money purchase annual allowance and stricter provisions on recycling tax free lump sums as further pension contributions.

All these changes generally take effect from 6 April 2015. There is more legislation to come, as the Chancellor's Autumn Statement announcement about extending favourable tax treatment to dependant's annuities arrived too late to be included. It must also be said that just because the Taxation of Pensions Act now exists does not mean all providers will be able – or willing – to administer the increased flexibilities in three months' time.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The value of your investment can go down as well as up and you may not get back the full amount you invested. The Financial Conduct Authority does not regulate tax advice.