Sackers

Budget Day 2020

Alert | 11 March 2020

Introduction

After only a few weeks in the job, the Chancellor, Rishi Sunak, today delivered his first Budget. Whilst much of his focus was on shoring up the NHS, the economy, and business during unprecedented times, key changes to the tapered AA were also announced. As expected, alongside the Budget, the Government also published its consultation ("the Consultation") on the possible reform of RPI.

Key points

- Despite numerous rumours about pensions tax, the Chancellor's focus was on shifting the main thresholds applicable to the tapered AA upwards by £90,000.
- In addition, in future, those earning £312,000 and over will have a tapered AA of just £4,000.
- The LTA will continue to increase in line with CPI, rising to £1,073,100 for the 2020/21 tax year.
- Following a recommendation by the WPC last year, the Government has committed to reviewing an anomaly affecting lower paid workers whose pension scheme uses a "net pay" arrangement. A call for evidence will be published "shortly".
- The Government and the UK Statistics Authority ("the UKSA") have launched a consultation on the UKSA's proposal to address the shortcomings in the RPI measure of inflation.
- Broadly, the Consultation proposes aligning RPI with CPIH and seeks information on the impact of this on gilt-holders (such as DB occupational pension schemes) and the wider gilts market. The actual timing of any change will be informed by the responses.

Background

How the tapered AA works

The AA restricts the amount of tax relief an individual can receive on their pensions savings in any given tax year.

Since 2016, earners whose "adjusted income" is greater than £150,000 a year are subject to the tapered AA. Adjusted income generally covers all taxable income, including salary, interest on savings, income on rental property, as well as pension contributions (including those made by an employer). However, anyone whose "threshold income" (put simply, income minus any employer pension contributions) is £110,000 or less falls outside of the tapered AA.

The taper works by reducing the usual standard AA of £40,000 by £1 for every £2 of income an individual earns over £150,000, subject to a maximum reduction of £30,000. This means that anyone earning £210,000 or over has an AA of just £10,000.

The RPI Consultation

The Government's Consultation on the future of RPI is no surprise. It follows a recommendation by the UKSA that RPI should eventually stop being published but, in the interim, its "shortcomings…should be addressed by bringing the methods of" CPIH (CPI, including owner occupier's housing costs) into it. The Government's consent is required to make such changes before 2030.

The Consultation looks at whether to implement the proposal at a date other than 2030 and, if so, when between 2025 and 2030.

Changes to the tapered AA

Designed to "support the delivery of public services" (primarily, the NHS) the two main tapered AA thresholds will each rise by £90,000 from the tax year 2020/21. This means that:

- threshold income will be set at £200,000, so individuals with income at or below that level will no longer be affected by the tapered AA, and
- the tapered AA will only kick in for individuals whose adjusted income is above £240,000.

In addition, the upper boundary of the taper is set to be extended further, so that for those earning £312,000 and above the tapered AA will be just £4,000 going forwards.

The RPI consultation

Changing RPI

The UKSA is required by legislation to compile and maintain RPI, and the Government has no intention to remove this requirement.

As a result, the UKSA proposes to address the shortcomings of RPI by bringing the methods and data resources of CPIH into RPI. CPIH is currently the National Statistic and has been the ONS's lead measure of inflation since March 2017.

RPI and CPIH will continue to be calculated separately, on an ongoing basis, and would be published as separate indices and growth rates.

The Consultation states that, based on recent experience, this change to RPI would result in a reduction to its annual measured rate of inflation by, on average, 1% per annum.

Impact and timing

The Government's position is that a change to RPI cannot be made prior to 2025. In deciding whether to consent to the proposed change prior to 2030, the Chancellor will consider the potential impact on the interests of the holders of index-linked gilts (including many DB pension funds) and the index-linked gilt market, as well as, for example, any consequential impact on public finances.

According to the Consultation, the impact on gilt-holders and, more broadly, the gilt market, is unclear. The Government is therefore seeking information on the above and, in particular, whether any impact would differ depending on timing (ie the change being made in 2025, 2030, or any year in between).

What next?

Clearly, the changes being made to the tapered AA are designed to help alleviate pressures on essential services at a crucial time for the country. This move will be welcomed by many.

As for the RPI proposals, trustees should consider the possible impact on their schemes (and members) with their advisers. The consultation closes on 22 April 2020.

If you have any questions on any of the above, **please speak to your usual Sackers contact**.

Sacker & Partners LLP
20 Gresham Street
London EC2V 7JE
T +44 (0)20 7329 6699
E enquiries@sackers.com
www.sackers.com