

Pensions tax poised for reform?



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By the time you are reading this, a new Government (in one shape or form) will be in power. Whilst there would be a number of issues on the pensions industry's reform

wish-list, changes to the tax system must be close to the top.

2006's pensions tax 'simplification' has been followed by layer upon layer of complexity, and there seems to be a growing consensus around making the system cleaner and clearer to understand.

Under the current system, tax relief is designed to incentivise saving – up to a point. Allowances in place mean that, while higher earners receive relief to match their personal tax rates, this is not without its limits. And the allowances that cap relief have fallen dramatically: the standard lifetime allowance (or LTA) which at its peak reached £1.8 million fell to £1m in 2016, although it is now creeping slowly upwards again each year by reference to the Consumer Price Index (CPI). Existing rights have been grandfathered along the way with a raft of transitional protections, but these have hardly helped simplify matters. Similarly, the standard annual allowance (AA) once stood at £255,000, but is now just £40,000.

More recently, the tapered annual allowance (introduced from 6 April 2016), started to restrict pensions tax relief for individuals with 'adjusted income' (ie taxable earnings including pension savings, but excluding charitable contributions), above £150,000. Under the taper, for every £2 of adjusted income over £150,000 an individual earns, their AA reduces by £1, subject to a maximum reduction of £30,000 (so someone with an adjusted income of £210,000 or more has an AA of just £10,000).

The impact of the tapered AA is now beginning to bite for an increasing proportion of the workforce, with some unforeseen consequences. Over the last year, NHS pensions have hit the headlines, with concerns about the effect of the taper leading to a series of consultations proposing increased flexibility for doctors. At the same time, Her Majesty's Treasury (HMT) also noted that the tapered AA was indeed under review.

Of course, with the calling of the General Election, we will have to hold our breath a little longer on any potential reforms. However, at the time of writing, in a surprise move, the Government had just pledged to pay the tax bills of NHS workers in order to stave off a winter health crisis – perhaps tacit acknowledgment that change is needed?

Pensions tax is clearly an area ripe for some degree of reconsideration in the new year...