



## NEWS RELEASE

***The Government's pensions tax relief reforms for those on higher incomes are ill thought out, complex, costly to implement and will damage the pension prospects for those on middle and low incomes...***

### **PENSION TAX CHANGES ARE SEVERELY FLAWED AND SHOULD BE WITHDRAWN**

**5 March 2010: In a detailed response to the HM Treasury and HM Revenue & Customs consultation paper *Implementing the restriction of pensions tax relief*, the Association of Consulting Actuaries (ACA) has said that the policy is 'seriously flawed' with each attempt to try to make it fairer only increasing the complexity and adverse impact on pension schemes. Whilst identifying ways in which some of the worst anomalies could be avoided in the response, the ACA has called for an evidence-based impact assessment of the real costs of the reforms –properly identifying how this hits the private sector, and the remaining defined benefit schemes in particular - few believe the consultation paper's figures are at all realistic.**

Commenting on the response, **ACA Chairman, Keith Barton** said:

"We understand the desire to raise additional revenues in the current climate and that those on higher incomes must accept they will bear a higher proportion of the tax take.

"However, the policy proposed, centred round an income threshold, is just about the most complex and inefficient way possible – it seems to have been dreamt up with scant regard to how arbitrary it will be as comparing one individual to another. Worse still, it seems almost to have been designed to do maximum damage to ongoing pension provision – in direct opposition to the Government's stated policy of encouraging the retention of 'quality' schemes.

"The policy is intended to raise revenues from around 300,000 high earners, but in reality it will directly affect many more people, and will have the effect of reducing pension prospects for hundreds of thousands of employees on low and middle incomes as the closure of good schemes accelerates, as a consequence of the measures.

"Simply put, the policy – to use the politest descriptions – is dreadfully conceived, but stubbornly pursued, despite pretty well unanimous warnings from across the business and pensions world echoing our conclusions.

Hasn't enough damage been done to quality pensions? We can only hope an incoming Government after the General Election – of whatever political colour - will be sensible enough to look again at a simpler way of achieving the same end objective.”

The ACA points out that the tax measure proposed breaches just about every aspect of the *Canons of Taxation* developed by Adam Smith to denote a 'good tax':

- **Equitable:** the tax **is not equitable** as similarly situated taxpayers will pay very different taxes (see examples in *Note to Editors*)
- **Convenient:** the tax **is not readily and easily assessed, collected and administered** – quite the opposite
- **Certain:** there **is no consistency and stability in the prediction of taxpayers' bills** and the amount of revenue collected over time
- **Economical:** the **compliance and administration of the tax will certainly not be minimal** for the HMRC or employers, schemes and individuals (and the complexity means mistakes will be rife).

Commenting on the detail of the response, **Karen Goldschmidt, Chairman of the ACA Pensions Taxation Committee** said:

“We have been told that the Government will not change course, which is desperately concerning given the anomalies and substantial administration that will flow from implementation. Our detailed response identifies and seeks to resolve the anomalies that we can, but, whatever we propose, implementation will be seriously flawed unless the policy is totally re-thought.

“As just one example, we site in our response where with just a one pound difference in 'income', individuals could experience a tax charge varying from nil through to over £13,000.

“Already, we have seen employers proposing withdrawing pensions as an element of pay package for salaries well below the £130,000 income threshold because of the risk that granting some normal element of income (or indeed some personal income) or a quirk of the way pension is valued could trigger this super-tax.

“And separately, we have noted how, unless properly carved out, redundancy payments could inadvertently cause a large tax charge for middle income employees, at just about the worst time possible, when an individual loses their job. And, be warned, senior directors too. You may pay thousands in extra tax based on what your DB pension is assessed to be worth only to find in, say, ten years time your scheme enters the PPF – you could then lose most of your pension because of capping and receive no tax rebate at all! Of course, senior civil servants and Cabinet Ministers won't have the same worry.

“We are 13 months off the date after which making pension savings could trigger the new tax. The detailed drafting of the legislation has barely begun.

“In such circumstances, it cannot be surprising so many employers are turning away from pension provision.

“We are aware of the NAPF’s proposals that Government instead should slash the amount of pension savings that can get full tax relief, from £245,000 a year (introduced as recently as 2006) to £45,000-£60,000 a year. This would be a transparent mechanism and would directly withdraw relief from very high levels of pension savings. It would avoid the complex income test with its arbitrary outcomes, and mean continued engagement of management in pension provision. The complexity, administration and cost of running such a system should not be underestimated – but this is an approach that that should be seriously considered.”

**Copies of the full ACA response are available from the ACA (call 020 3207 9380) or can be viewed at the ACA website at [www.aca.org.uk](http://www.aca.org.uk) see ‘Recent Publications’.**

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**Note to Editors:**

### **The cliff-edge created by the income threshold: examples**

**Example 1:** *An employee whose only income is a salary of £120,000 and employer-funded pension value of £50,000 (possibly the value placed on accrual at 1/60ths) would have no recovery tax applying. Being granted a bonus of £10,000 would trigger recovery tax of £13,000: **the £10,000 income would thus attract total tax of £17,200** (income tax, NI, recovery charge).*

**Example 2:** *An individual with income of £129,999 and employer-funded pension value of £50,000 would have no recovery charge. **But an additional £1 of income (e.g. bank interest) would again trigger a recovery charge of £13,000.***

### **About the Association of Consulting Actuaries (ACA)**

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1750 members working in around 75 firms. ACA Members are all qualified actuaries and are subject to the Actuaries’ Code. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World.