

Written Ministerial Statement

Restricting Pensions Tax Relief

The Financial Secretary to the Treasury (Mark Hoban): On 14th October the Government announced that, from April 2011, the annual allowance for tax-privileged pension saving will be reduced from £255,000 to £50,000 and that from April 2012 the lifetime allowance will be reduced from £1.8m to £1.5m, to ensure that pensions tax relief remains fair and affordable. Representations were sought on some specific policy issues around reducing the lifetime allowance and the Government is today setting out its proposals for the operation of a new protection regime for individuals who may have already built up pension savings in the expectation that the lifetime allowance would remain at its current level of £1,800,000.

This new 'fixed protection' will give anyone the opportunity to apply for a lifetime allowance of £1,800,000 instead of the reduced lifetime allowance of £1,500,000 on the condition that they no longer actively contribute to their pension or actively accrue pension benefits (i.e., broadly excluding annual inflationary uprating). Individuals who are already entitled to primary protection and/or enhanced protection will also continue to receive their current levels of protection.

Draft clauses and draft guidance are being published today on the reduced lifetime allowance, including the operation of 'fixed protection'. It is intended that from 6 April 2012 individuals will be considered 'inactive' if they do not make or receive any further contributions to a registered defined contribution pension scheme, or build up additional annual pension over an allowable 'relevant percentage' in a registered defined benefit or cash balance pension scheme. In order to prevent pension scheme rules being amended following this announcement so as to allow for artificially inflated annual increases to pensions rates the 'relevant percentage' is defined as being the rate of increase specified in the scheme rules as at today's date, 9 December 2010. If no rate is specified in the scheme rules, the 'relevant percentage' will be the annual percentage increase in the consumer prices index for September in the previous tax year.

A revised set of draft clauses on the annual allowance, that were previously published on 14 October, have also been published today. This contains some additions and amendments, including details of the proposed exemption from the annual allowance in cases of severe ill health.

HM Treasury
9 December 2010