



HM TREASURY



HM Revenue
& Customs

Pensions Tax Consultation: *Implementing the restriction of pensions tax relief*

DELIVERING THE RESTRICTION WORKSHOP

22nd January 2010

9:00 – 12:30

HM Treasury

SUMMARY OF DISCUSSION

Introduction

Stuart Glassborow, team leader of the Assets, Savings and Wealth Team in HM Treasury, gave an introduction to the event and a brief overview of the consultation.

Session 1: Applying and delivering the restriction of relief

Matthew Robinson (HMT) gave a presentation on applying and delivering the restriction of relief on pension contributions. Participants discussed these issues in groups. The consultation questions for discussion and the key points raised were as follows:

1.1 What is the best balance between the smoothness of the taper, and ensuring simplicity for individuals?

- In the group discussion on this point, some participants felt that for self-calculators, a stepped approach was a sensible one, and that steps of, for instance, 1% of relief per £1,000 of income were easier to understand and were not unreasonable, recognising that this only affected people within the taper band.

- However, the majority of the workshop participants favoured a smooth taper. It was noted that for online filers, the Self Assessment calculator would work out the rate of relief applicable so even a very accurate approach using a formula rather than steps would be possible.
- It was suggested that HMRC produce a stand-alone calculator for non-online filers.

1.2 Pension input period: should the PIP for the purposes of assessment against the annual allowance now be brought into line with the tax year?

- It was noted that aligning the PIP with the tax year could concentrate the workload on administrators at that time of year; the transitional period when moving to the tax year from another PIP could also be difficult for schemes.
- Given this, attendees felt that the PIP should not be compulsorily aligned with the tax year; schemes could choose to do this should they so wish.

1.3 Benefit statements: should employers automatically request that pension schemes provide benefit statements to any employee for whom they have previously asked for one?

- There was a sense that employers should not be obliged to request a pension benefit statement in these circumstances as this imposed an additional benefit where it might not always be necessary, although it was noted that employers did have a role in facilitating compliance with the restriction.
- It was suggested that there could be a reference to the forthcoming restriction of relief in the 2010 Self Assessment form so that individuals would be aware of the need to gather relevant information.

1.4 Impact assessment: what is your view of the impacts identified on individuals, pension schemes and employers from this basic process (excluding DB valuation options and scheme pays)?

- There was a general feeling that the estimates in the IA may not have captured all the administrative implications, and that there was a need to account for the numerous ad hoc requests schemes would receive throughout the year. These would often be from senior staff who would expect to be able to talk and receive advice from experienced, and therefore costly, staff from the scheme administrator. HMT/HMRC invited respondents to come forward with any evidence on impacts and costs to support the views expressed.

Other points:

- The difficulty in knowing an individual's tax position before the end of the year was noted.
- It was proposed that individuals should be allowed to unwind pension contributions that they may have made without realising that they would become subject to the restriction of relief.

Session 2: Applying the restriction of relief in particular circumstances

Claire Gough (HMRC) then presented on applying the restriction in particular circumstances (in particular, for overseas schemes, where a redundancy or other termination payment is received; and applying the restriction in the year that benefits are drawn). The questions for discussion and key points raised were:

2.1 Overseas schemes: The Government welcomes views on any practical or administrative issues that may arise from applying the restriction of pensions tax relief to individuals on gross incomes of £150,000 and over who are members of overseas pension schemes and benefiting from UK tax relief.

- Participants accepted that it would be unfair on those in UK schemes if those benefiting from UK relief in overseas schemes were not also included in the restriction.

- It was noted that many overseas schemes would not be able to offer the “scheme pays” option.
- It could also be difficult for individuals to obtain the relevant information about their pension entitlement from overseas schemes in time for the Self Assessment deadlines. There should therefore be guidance on how to estimate this where necessary.

2.2 Year of drawing benefits: The Government welcomes views on the proposal to use the higher of gross income in the current or previous tax year for the purposes of assessing whether individuals are affected by the restriction of tax relief in the year that benefits are drawn

- Many participants felt that the approach proposed to the year of retirement was reasonable.
- However, it was noted that there might be some behavioural change in date of retirement as a result of this, which could concentrate administrative burdens for employers. It would be important to ensure that partial or phased retirement was dealt with fairly.
- Participants noted that taking an individual’s income over the year of drawing benefits and the previous year could mean variations in tax treatment depending on whether an individual planned ahead for their retirement or not.

2.3 Termination payments: The Government welcomes views on ways in which the impact of individuals affected by the restriction due to a redundancy payment of over £30,000 could be further mitigated without opening up scope for abuse.

- There was some appetite for further discussion of the potential risks to revenue should redundancy payments be completely exempted.
- One proposal put forward was that an amount equal to the higher of £30,000 or the number of years of active service multiplied by a

set factor could be exempted from the definition of income, to target cases where individuals had been made redundant following a long period of service.

- It was highlighted that there could be some disparity of treatment depending on how redundancy packages were designed eg between an individual on earnings of £90k receiving a cash redundancy payment of £100k (subsequently pensioned) and an individual on £90k receiving an employer pension benefit, as a result of redundancy, worth £100k.
- It was also noted that there could also be some complexity where an individual was made redundant at the end of their maternity leave.

Session 3: Flexibility over payment of large recovery charges ('scheme pays')

In the third session, Kara Humphreys (HMT) gave a presentation on the options for flexibility over payment of large recovery charges. The questions for discussion and key points raised were:

3.1 Process: welcome views on the scheme pays process, particularly whether it can be modified to minimise burdens, and whether the main administrative impacts have been captured in the consultation Impact Assessment

- It was noted that there could be significant administrative complexity for schemes associated with offering the "scheme pays" option, including added complexity in calculating the individual's pension benefits over the longer term.
- Administrative systems would need to be significantly revised to handle the adjustment necessary. It was noted that there were economies of scale to be made; it would cost less for large schemes.
- There was also an interaction to be considered with the lifetime allowance.

3.2 Offsetting reduction to pension benefits: should Government set parameters for calculating the offsetting reduction to a member's pension benefit across all DB schemes?

- It was generally felt that the Government should not set parameters for how schemes should calculate the offsetting reduction in a member's benefits.

3.3 Access: should scheme pays only be available to those in DB schemes? Is it reasonable to allow individuals to only elect a single scheme to pay in a given year, and for the scheme to pay only the portion of the charge relating to contributions to that scheme?

- Several participants thought that scheme pays should be available to members of DC schemes as well as DB schemes (although there would be administrative issues specific to both types of schemes).
- It was proposed that "scheme pays" be made available to all those affected by the restriction of relief, or that schemes should have the choice of who to offer it to (including those with recovery charges of less than £15,000); but there was some difference of opinion among participants about this.
- Some felt that if individuals could choose more than one scheme then a de minimis limit should be set.

3.4 Where the scheme is not able to pay: is it necessary to include an opt-out for the small minority of DB schemes that would be disproportionately affected? Should spreading over 3 years be available to those with charges exceeding £15,000 whose scheme is not able to pay?

- It was proposed that the option of spreading payment of a recovery charge should be open to all those affected by the restriction of relief.

Presentation on draft clauses

Finally, **Peter Seedhouse (HMRC)** gave a brief presentation of the draft legislation for the measure. Draft clauses were published alongside the Pre-Budget Report (9 December 2009) and further draft clauses covering the DB valuation method, anti-avoidance and residual issues would be made available on the pensions tax consultation website (http://www.hm-treasury.gov.uk/consult_pensionsrelief.htm). Peter noted that early engagement from stakeholders on the legislation (and on all the consultation questions), in the form of written responses where possible, would be very much appreciated. It was also proposed that a workshop could be set up to discuss the draft clauses.