

WRITTEN MINISTERIAL STATEMENT

RESTRICTING PENSIONS TAX RELIEF

The Financial Secretary to the Treasury (Mark Hoban): The Government provides generous tax relief to save for a pension, to encourage individuals to take responsibility for retirement planning and to recognise that pensions are less flexible than other forms of saving. The cost of tax relief net of income tax paid on pensions paid doubled under the last Government to around £19bn per annum by 2008-9.

To ensure that pensions tax relief remains fair and affordable, the Government confirmed in the June Budget that it would proceed with the previous Government's goal to reduce the cost of pensions tax relief by about £4bn per annum. It was clear, however, that the previous Government's approach to achieving this introduced significant complexity into the tax system, undermined pension saving and damaged UK businesses and competitiveness.

We announced in the June Budget that we would seek an alternative approach that limited the amount of tax relief that those who make the highest pension contribution receive, whilst ensuring generous incentives and flexibility for the vast majority of pension savers. We believed that such a system would be fairer, preserve incentives to save and would lessen the impact on the ability of UK businesses to attract and retain talent. This view has been confirmed by the response to the informal consultation we held over the summer.

So today, the Government is announcing that, from April 2011, the annual allowance (AA) for tax-privileged pension saving will be reduced from £255,000 to £50,000 and that from April 2012 the lifetime allowance (LTA) will be reduced from £1.8million to £1.5million. These changes will generate around £4bn annual revenue in the steady state, protecting public finances.

Because we want a system that balances the needs of those in defined benefit (DB) and defined contribution (DC) schemes, the reduced AA applies to both types of schemes. Further, the deemed contributions to DB schemes will be calculated via a simple "flat factor" method. Reflecting the Government Actuary's advice, the level of the factor will be set at 16. Again, this achieves a fair balance between DB and DC schemes. The Government Actuary's report is publicly available on the HM Treasury website from today.

More detail on the policy specification and impacts can be found in a Summary of Responses to the July discussion document, and draft clauses for the AA regime (including transitional arrangements), also available on the website from today.

The Government anticipates that most individuals and employers will look to adapt their pension saving behaviour and remuneration terms to ensure that their pension contributions remain below the AA. However, we recognise that for traditional DB schemes this will be more difficult because changes in circumstances can lead to one-off spikes in pension accruals. We have sought to mitigate the impact of this through a more generous AA than we originally proposed. Further, where the

pension tax charge exceeds the AA, we have proposed that unused allowance from up to the three previous years will be carried forward to offset against the excess contribution. In the interests of fairness, this will be available for DB and DC schemes. This will provide protection for the vast majority of people on moderate incomes. In the exceptional cases where this mitigation is not sufficient, we will introduce further measures to ensure that individuals will not have to pay large charges from their current income. We will consult on options to give individuals and schemes more flexibility over the payment of these charges in November 2010.

HM Treasury
14 October 2010