



## Restricting Pensions Tax Relief

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The Government has considered the issue of pensions tax relief and believes reform in this area is a necessary part of its commitment to tackling the fiscal deficit.

However, having listened to the concerns of the pensions industry and employers, the Government has reservations about the approach adopted in Finance Act 2010. It believes this could have unwelcome consequences for pension saving, bring significant complexity to the tax system, and damage UK business and competitiveness. An alternative approach involving reform of existing allowances, principally of a significantly reduced annual allowance, might better meet the Government's objectives.

In line with the commitment to tackle the fiscal deficit the Government will seek to ensure that it raises at least the same amount of revenue through restricting pensions tax relief as has already been accounted for in the public finances over the forecast period, and beyond that in steady state. Provisional analysis suggests an annual allowance in the region of £30,000 - £45,000 might deliver the necessary yield. The level required would however be influenced by a number of policy design features in the revised regime, including the appropriate level of the lifetime allowance.

The Government recognises that various features of a much lower annual allowance would need to be revised to ensure it operated fairly and effectively. The Government wishes to engage employers, pension schemes, experts and other interested parties to determine the best design of a regime, looking at a wide range of issues that will need further consideration. Relevant issues for the Government to consider include:

- how pension accrual in DB schemes would be valued;
- options to protect basic-rate taxpayers, and to support hard cases caused by one-off 'spikes' in pension accrual;
- whether and how there could be flexibility for individuals over paying any charges that arise;
- how compliance and delivery would operate in practice.

These and other policy design issues will have a bearing on the revenue raised by the policy. In taking forward these discussions the Government's over-riding concern

will be the delivery of the fiscal objective set out above. The Office for Budget Responsibility will consider the Government's revised approach in producing its future forecasts.

Within the constraints of its over-arching fiscal objective the Government will also balance its objectives, as effectively as possible, for the pensions tax regime to be fair, simple and sustainable in the long term. The system will also need to minimise administrative burdens whilst ensuring effective compliance.

Legislation will be introduced before the summer recess to repeal through regulations the legislation passed at Finance Act 2010. The Government will repeal the legislation once it has decided on the detail of its approach.

The Government has decided that there will be no changes to the anti-forestalling regime at Budget, as the existing regime broadly protects against forestalling risks. However, the Government will continue to actively monitor the regime and, if necessary, act in future in order to protect tax revenue at risk.

The Government will also end the existing rules that create an effective obligation to purchase an annuity by age 75 from April 2011. A consultation on the detail of this change will be launched shortly. Legislation for transitional arrangements will be in the Finance Bill after the Budget for those yet to secure an income who will reach 75 in the meantime.