

Summary of Responses to; *Simplifying the taxation of pensions: increasing choice and flexibility for all,* published 17 December 2002

1 “*Simplifying the taxation of pensions: increasing choice and flexibility for all*” the first consultation paper setting out the Government’s proposals for simplifying the taxation of pensions was published on 17 December 2002. The consultation period ended on 11 April 2003. During that time, IR received 366 formal responses to the proposals.

2 Copies of each non-confidential response received are held in the House of Commons Library and are available for viewing by members of the public.

3 Most responses from the public reflected media and personal interest in the main proposals. Those from the pensions industry and various representative bodies offered comments across a broader range of the proposals.

4 The responses have been overwhelmingly positive, broadly welcoming the proposals and commending IR’s bold approach to replace the multiplicity of the current rules with a single regime.

5 Those who responded can be broken down by type into 5 main categories:-

Table 1: Respondents to *Simplifying the taxation of pensions: increasing choice and flexibility for all*

TYPE	NUMBER
Individuals	118
Representative bodies	60
Employers	37
Pension providers	19
Financial services providers	132
Total	366

6 Two thirds of the responses from pensions industry and employers groups were extremely positive. Comments from this group included :-

- “The ABI supports and welcomes the Government’s bold proposals for simplifying the pension tax regime” –**Association of British Insurers**
- “These proposals are refreshingly radical, especially in sweeping away the complexity of numerous layers of legislation. The growth and promotion of private pension provision should be improved” –**Association of Independent Financial Advisors**
- “The proposals should lead to a substantial reduction in administrative

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costs for employers, pension funds and pension providers. Even more importantly, for the great majority of people, they will sweep away many of the regulatory restrictions which make pensions baffling and discouraging for many” –**Society of Pension Consultants**

- “We applaud the radical approach that the Inland Revenue has taken and believe that the new proposals are a vital and positive step forward” –**AEGON UK**
- “We strongly support the Government’s attempts to simplify the pensions regime, improve security for members of occupational pension schemes, improve financial education and extend working lives” –**Nationwide Building Society**
- “We welcome the radical simplification of IR regulation and practice set out in the proposals” –**Coal Pension Trustees**

7 Responses from those unhappy with the proposals included :-

- “We applaud the Government intent to bring greater simplicity to pension taxation but are seriously concerned that the proposals will cause UK companies to take retrograde decisions about their pension arrangements” – **Shell UK**
- “We feel that the IR’s proposals will not do anything significant to increase the amount saved as pensions amongst lower and middle income groups” – **Mercer**
- “Simplicity will not encourage increased provision” – **London Society of Chartered Accountants**

Responses to the main proposals

The lifetime allowance

8 There was overwhelming support for the Inland Revenue’s proposals to replace the current 8 regimes with a single lifetime allowance on the total amount of pension saving that can benefit from tax relief. A significant number of respondents stated that the proposed figure of £1.4m was insufficient to purchase an income broadly equivalent to the current maximum pension available. Suggested alternative figures ranged from £1.6m - £2m.

9 Alternative proposals put forward by respondents included a lifetime limit on contributions to pensions savings and a method of applying a lifetime cap at the time contributions are made to pension funds. Both were more complex than the IR proposals but of benefit to those individuals likely to be affected by the £1.4m lifetime allowance.

10 All respondents called for indexation of the lifetime allowance to be linked to earnings rather than prices for not only the lifetime allowance, but the annual allowance and transitional protection of pre-A-day funds.

The Recovery Charge

11 The vast majority of responses argued that the proposed rate of 1/3rd was penal, did not reflect the amount of tax relief that pension saving attracted and that a figure of 25% reflected true tax neutrality.

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The Annual Allowance **12** Many respondents saw this as unnecessary. It was hoped that its role in the compliance regime for simplification might be dropped if the threat of tax leakage could be removed in some other way.

Transitional Protection **13** An overwhelming number of respondents argued against the IR proposals for transitional protection. Most believed that they were no better than a form of retrospective taxation, especially on those who had seen a fall in the value of their funds due to recent falls in investment markets.

14 Various options were put forward in their place, including :-

- Indexation by reference to earnings or growth in the investment market;
- Ring-fencing of pre-existing funds/accrued benefits.

Timing of A-Day **15** Whilst welcoming the simplification proposals, two thirds of respondents felt that 6 April 2004 was unrealistic and argued for 2005 or 2006 as being a more realistic time frame in which to plan for and implement the new regime. Suggestions on easements to the current regimes which might be made in advance of A-Day were also put forward.

Flexible Retirement **16** The proposals for greater flexibility on retirement age and allowing occupational pensions to be drawn whilst continuing employment were welcomed. The proposals to raise the minimum benefit age were not welcomed, especially by those in professions which have earlier retirement ages. Strong representations were made to respect the accrued rights of those who expect to retire at 50.

Annuities and Death Benefits **17** A number of responses highlighted the potential effects of the lifetime allowance on survivors benefits, but the issues that elicited most comment from individuals were the continued requirement to secure an income before the age of 75 and the proposed restrictions limiting lump sum death benefits in drawdown.

18 The proposed reforms of the rules surrounding trivial commutation were widely welcomed with many respondents in favour of replacing the limit of £10,000 per annum with some sort of link with the lifetime allowance.

Pensions on Divorce **19** An overwhelming number of respondents commented that the proposal for maintaining the existing position on the sharing of a pension on divorce were unfair. The alternative approach they put forward was not to count the amount of pension shared by spouse A on divorce against their lifetime allowance, and to maintain equilibrium by counting the amount shared against the acquiring spouse's lifetime limit.

Conclusion

20 The large number of responses to the consultation reflects the importance of the proposed changes to the pensions regime. In deciding on the next steps to be taken in the simplification of the taxation of pensions, the Government has analysed and considered all responses, including alternative proposals received to the first consultation. The Government's response is contained in the document entitled "*Simplifying the taxation of*

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pensions: the Government's proposals" published on 10 December 2003.