PENSIONS TAX RELIEF PARED BACK ONCE AGAIN

December 2012

Squire Sanders is disappointed to note that the Government is yet again meddling with pensions tax relief. In today's Autumn statement, George Osborne announced that the Annual Allowance will reduce from £50,000 to £40,000 from April 2014. It is only two years since the reduction from £255,000 to £50,000. Such constant moving of the goalposts does nothing to inspire confidence in the UK pensions system, which is somewhat ironic given that a whole chapter of the DWPs strategy paper: *Reinvigorating Workplace Pensions* is devoted to "Increasing trust, confidence and engagement".

In our recent White Paper we called for a period of stability for the pensions tax system and for a coherent approach to the taxation of competing savings vehicles. Instead the Government has chosen to single out pensions for the paring back of tax reliefs. Although purportedly targeted at higher earners, the latest change is likely to hit loyal middle income employees in traditional industries. Consequently, it could trigger the closure of the few remaining open final salary pension plans.

For example, the change could impact upon the pension savings of a long service employee in a typical final salary plan on the national average wage (of £26,500) who receives a pay rise of £4,000.

The pensions industry will have further administrative changes to implement on a much wider scale than before, as more and more individuals find themselves having to grapple with the implications of the reduced Annual Allowance. Today's announcement will do nothing to help those employers who are already struggling with defined benefit costs and complexities.

Following the reduction of the Annual Allowance we are likely to see an increase in the use of unregistered pension arrangements and further restructuring of remuneration packages. We would be happy to discuss such options with employers.

Further announcements

George Osborne also announced that:

- the Lifetime Allowance will reduce from £1.5m to £1.25m with effect from 2014/2015. (The pension industry can look forward to another form of transitional protection, this time snappily titled: "fixed protection 2014"!)
- the Government will raise the capped drawdown limit from 100% to 120%, giving pensioners with these arrangements the option of increasing their incomes.
- by contrast, the limits on tax-efficient savings through ISAs are to increase.
- the basic state pension will increase by 2.5% in 2013/2014.
- the DWP will consult on providing the Pensions Regulator with a new statutory objective to consider the long-term affordability of deficit recovery plans to sponsoring employers with defined benefit pension plans.
- the DWP will consult on whether pension plans undergoing valuations in 2013 or later can smooth asset and liability values.

For further information please contact any of the partners listed or your usual contact in the Squire Sanders pensions team.

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