

## EMPLOYER WORKPLACE PENSIONS

# POTENTIAL CHANGES TO PENSION TAX RELIEF

As you probably know, there is growing speculation that there may be a major announcement on pension tax relief in the Budget on 16th March 2016.

The Chancellor launched a consultation last year into the tax incentives for pension savings. This set out a broad range of options ranging from the 'do very little', extending all the way to the removal of up-front tax relief and granting tax free pension income instead. At this stage, nothing has been formally announced but it appears that a key objective is to reduce the amount, and more fairly apportion, the total cost of pension tax relief which (from the Government's perspective) disproportionately favours Higher and Additional rate tax payers.



If a reduction in the cost of tax relief can be achieved and, at the same time, simplify the incentive to save, then this option is likely to appeal strongly to the Chancellor. For this reason, industry and press speculation is weighted towards the introduction of a single flat rate of tax relief for all pension savers, irrespective of their individual income tax rate. The rate could be set somewhere between 25% and 35% with industry opinion suggesting it needs to lie towards the lower end in order to generate a worthwhile saving for the Treasury. If it was to be set at 25% that would bring the additional advantage of the 'incentive' being easier to understand, as it could be communicated as a '3 for 1' deal for all pension savers.

Whilst nothing has been released, our view is that a change will be announced in the Budget and the Government is likely to settle on the flat rate option.

### WHO COULD BE AFFECTED?

This has the potential to impact on all members contributing to a pension scheme, both Defined Benefit (DB) and Defined Contribution (DC). For DC members who are basic rate taxpayers this potential change would be positive and result in a larger amount of pension tax relief. However, for members paying tax at the higher rates it would reduce the amount of pension tax relief relative to that available currently.

It is clearly more complicated for DB members, but it is likely that the value of the accrual would be captured and a rebate or charge relative to the marginal rate of income tax applied.

## WHAT ABOUT CORPORATION TAX RELIEF?

We do not envisage corporation tax relief will be affected - so contributions to a scheme would still attract tax relief at the current rate.

## WHEN COULD THE CHANGE COME INTO AFFECT?

The Chancellor is due to give his Budget speech on 16 March 2016 and we anticipate that details of any change will be included. It is likely that it will come in from April 2017, with perhaps some anti-forestalling measures in force immediately.

## WHAT ABOUT THE TAPERING OF THE ANNUAL ALLOWANCE FROM APRIL 2016?

As far as we understand this will still be in force from 6 April and remain so even after any new plans are introduced.

## WHAT ABOUT SALARY SACRIFICE?

If there is a move to flat rate then the rules on pension Salary Sacrifice will need to be altered. In its current form, Salary Sacrifice would provide a means for Higher and Additional Rate tax payers to bypass such a change. Salary Sacrifice could also disadvantage some basic rate tax payers as they may be able to obtain a flat rate rebate higher than the tax and NIC saved under the current Sacrifice agreement.

## SUMMARY

Clearly, we do not know precisely what will happen but there is a strong sense that something will occur and the introduction of a flat rate relief is the front runner.

## TAKE ACTION

Employees paying tax at the higher rates may wish to consider making any planned lump sum or contribution increases before March 16th. Conversely, employees paying basic rate tax may wish to hold back on any increases or lump sum contributions until after the Budget.

Employers may want to inform employees of these potential changes.

## FIND OUT MORE

Broadstone will be running a morning webinar on 18 March which will explain how any changes will work and provide as much information as we have at the time.

**If you'd like to sign up for our webinar please email:**

**Dolly.Garland@broadstone.co.uk**  
**Subject line: Webinar Registration**

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If you are responsible for your employer scheme and looking for clarity and a fresh perspective on your pension strategy, we can help. Please contact us to arrange a free initial meeting or telephone discussion.

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