CLEMENCE HOAR CUMMINGS
CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Latest on Pension Tax Crisis

Following the Government's announcement earlier this year in response to the increasing clamour regarding the pension tapered annual allowance crisis (previous factsheets can be found at chc.uk.com/medical-professional-fact-sheets) the Office of Tax Simplification (OTS) has joined the debate by supporting the announcement to review the tapering rules. They have also made a suggestion that the annual allowance should be scrapped for defined benefit schemes such as the NHS scheme that are based on career earnings.

The announcement by the OTS said:

'The lifetime allowance charge and the annual allowance charge can present significant complexities for pension savers in different circumstances, and in either defined benefit or defined contribution schemes.

'Given the policy aim of limiting the overall amount of pensions savings tax relief available to any one individual, applying both the annual allowance and lifetime allowance charges to pensions may be unnecessary.

'One possibility would be for the annual allowance to apply in relation to defined contribution schemes and the lifetime allowance in relation to defined benefit schemes, reflecting the most natural operational and administrative fit between the two approaches and the type of scheme involved.'

The above suggestion would alleviate the immediate issues but in our opinion will not solve the underlying problem. This would appear to remove the excess pension input charges being paid by many members of the NHS pension scheme that have given rise to this crisis, however, where large contributions have been made and significant pension growth achieved, during a clinicians career, there will still potentially be a large lifetime allowance charge on the amount of your pension pot exceeding the lifetime allowance, when the member takes their benefits at 55% of any lump sums, or 25% of any amounts taken as income. Therefore the disincentive for clinicians to work additional sessions will still remain.

Please remember that any amounts taken as income will also suffer income tax when this is paid to the member, giving an effective tax charge of 55%, the same as for a lump sum.

The current Lifetime Allowance stands at £1.055m, after a number of incremental reductions although protection is still current available at £1.25m.

A workable solution therefore still has to be found.

Although it's good to see that Government agencies are taking this problem seriously and the OTS's suggestion would significantly simplify the rules as they stand we would suggest that a workable solution would have to take into account this disincentive to clinicians and would therefore have to include a method of voluntarily reducing a member's pension contributions on additional sessions worked, with the quid-pro-quo reducing the pension growth.

The excess pension input charge is still with us and should be included on your tax return, if you would like to discuss how this is affecting you, help making a lifetime allowance protection claim, require help preparing your return, pension certificates and accounts please contact Philip Redhead on **01708 333308** or **philip.redhead@chc.uk.com**

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