

Article

Incentive theme

March 2010

Incentive synonyms include catalyst, drive, enticement, inducement, influence, inspiration, persuasion, purpose, rationale and reason. It is worth keeping this in mind when considering recent Government intervention on pension incentives. In the 2009 Budget, the Government announced its intention to introduce measures to reduce the tax relief on pension contributions available for those earning more than £150,000 a year. The measures are to take effect from April 6, 2011. At the time of the pre-Budget report, the Government announced a formal consultation period ending on March 3, 2010. HM Treasury produced a detailed consultation document covering 124 pages setting out a number of proposals relating to the restriction of tax relief and HM Revenue & Customs published draft legislation to accompany the Treasury document. In the midst of the 124 pages, we are introduced to a three-stage process for restricting tax relief.

Step one - looking at the individual's income

Individuals with pre-tax income of less than £130,000, including their own pension contributions and charitable donations, are not affected. Individuals with pre-tax income of £130,000 or more, including their own pension contributions and charitable donations, will only be affected if the sum of their pre-tax income and the value of employer funded pension benefits is £150,000 or more.

Step two - determining the appropriate rate of tax relief

The Government plans to restrict tax relief on pension contributions by the introduction of a taper for those with "gross income" between £150,000 and £180,000. This taper needs to be structured in such a way that it copes with situations where tax relief is being granted at two different rates.

Step three - applying the restriction on tax relief

The taper will establish a maximum level of tax relief for all income levels between £150,000 and £180,000 via a series of stepped changes. It would appear the Government is proposing to deal with this at the £1,000 level so the maximum rate of relief at any income between £150,000 and £151,000 is 49 per cent, £151,001 and £152,000 is 48 per cent and so on. Any tax relief that would have been above this amount will be reduced to the maximum rate of relief.

We could, of course, adopt a different approach. Reducing the annual allowance was discounted because it was believed that this would constrain the tax privileges for everyone and allow highest earners to receive more per pound saved than basic-rate taxpayers.

The aim of any incentive system must be to act as a catalyst while driving and influencing saving behaviour. A new annual allowance of, say, £30,000 to £50,000 would be simple for all to understand and could achieve this. It would also change the balance and spread of tax relief to ensure a fairer split while avoiding migraines for all of us who work with the current rules.

The most compelling argument is that investors do not like confusion and complexity. It has a nasty habit of getting in the way of rationality and reason.

END

Please note this document is intended for trade and national press individuals.

Notes for Editors

Pictures available by contacting kirsty.zollinger@ajbell.co.uk.

Billy Mackay
Marketing Director
07525 236 580

Andy Bell
Chief Executive
07973 137 272

Kirsty Zollinger
Sales & Marketing Manager
0845 40 89 100

billy.mackay@ajbell.co.uk

andy.bell.@ajbell.co.uk

kirsty.zollinger@ajbell.co.uk

A J Bell is continuing to grow rapidly in challenging capital markets. Invesco Perpetual and Midas Capital own 23% and 15% respectively of the share capital, the remainder being owned by Andy Bell and the management team.

Established in 1995, A J Bell specialises in providing administration, trustee and actuarial services for SIPP and SSAS.

A J Bell is now the largest privately owned provider of self administered pensions and institutional stockbroker services in the UK, with in excess of 40,200 individual SIPPs and assets under administration exceeding £11.2bn. It also provides third party SIPP administration services for Barclays Stockbrokers, Halifax Share Dealing, Skandia and E*Trade.

Our customer proposition - Market leading, low cost, transparent, service, value, choice, leading functionality, integrity, award winning.

Our business - Market leaders, growing, innovative, own intellectual property, profitable, stable, we don't provide advice or investment management.

Research by CoreData Research places Sippcentre alongside Standard Life as advisers' two most preferred SIPPs.



A J Bell includes A J Bell Holdings Limited and its wholly owned subsidiaries A J Bell Management Limited, A J Bell Limited and A J Bell Securities Limited.

A J Bell Management Limited is authorised and regulated by the Financial Services Authority. A J Bell Securities Limited is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority.

Sippdeal, Sippdealxtra and Sippcentre are platforms provided by A J Bell Management Limited. A J Bell Platinum SIPP is provided by A J Bell Management Limited. A J Bell Platinum SSAS is provided by A J Bell Limited.

The companies listed in the adjacent table are all registered in England and Wales at Trafford House, Chester Road, Manchester M32 0RS.

Company	Company Number	VAT Number
A J Bell Holdings Limited	4503206	833 5478 13
A J Bell Management Limited	3948391	759 3531 03
A J Bell Limited	3091664	639 0316 44
A J Bell Securities Limited	2723420	918 4226 21