

# Article

## The art of politics

*June edition*

I read something recently that said politics is the art of looking for trouble, finding it whether it exists or not, diagnosing it incorrectly, and applying the wrong remedy.

In a previous Moneyfacts article I wrote about A J Bell's open letter to Alistair Darling and George Osborne calling for a change to the tax treatment of residual Alternatively Secured Pension (ASP) funds on death. It is an interesting test of this political theory.

As a reminder, our proposal remains that you allow residual ASP funds to be paid to heirs as a lump sum after a one-off tax charge. This would be in lieu of Inheritance Tax and any other tax charges that may otherwise be applied. We suggested that a rate of tax at 55% is applied, acting as a neutralising tax charge to recoup the tax reliefs previously granted. We received a reply from both parties.

### Views from the opposition

The Conservative response came within a week of sending the letter and it was clear they were happy to enter into constructive discussions at a senior level. We arranged a meeting with Mark Hoban, Shadow Financial Secretary to the Treasury. Following the meeting we received a letter telling us that:

- The Conservatives recognise the strength of our arguments for change.
- They support an end to compulsory annuitisation.
- They have yet to formulate their policy around tax treatment of lump sum payments.
- They will look carefully at this area when drawing up the manifesto for the next election.

### Views from Government

The Ministerial Correspondence Unit of HMRC replied two months later confirming that the Government:

- Provides tax relief to encourage people to save and to provide themselves with a secure income in retirement. They believe that, by retirement, it is possible for more than 50% of the fund to be made up of tax relief.
- Wants to guard against the risk of exhausting pension savings prematurely.
- Wants to avoid ASPs being used as a mechanism to avoid taking a retirement income or as a way to leave a tax-favoured lump sum for other generations.
- Believes that the tax rules do not limit the use of this type of arrangement to any particular group of over 75s.
- Are of the belief that our call for a reduction in the tax on death to 55% does not allow for the fact that tax reliefs and exemptions have been given over many years.
- If the fund is not used to provide a secure income then the Government believes it is only right that tax relief is broadly repaid.
- The Government does not think it is appropriate to change the tax position of a lump sum paid after the death of a member in ASP.
- They will keep all aspects of the tax system under review. More changes may come because of the new 50% income tax rate and the limits on tax relief for high-income individuals.

We have always said that we have no problem with a tax being levied on unused pension funds after the death of the member and their spouse. The response did not deal with the arguments raised. We find ourselves with funds over the lifetime allowance taxed at 55% and lump sum death benefits at ages younger than 75 taxed at either 0% or 35%. Yet funds in ASP are taxed at a net rate of up to 82% to ensure that tax relief granted is repaid?

We should also take note of the plan to consider further changes because of the new 50% income tax rate and the limits on tax relief. A little snippet from the public bill committee stage of the Finance Bill on 19<sup>th</sup> May gives a hint of more change. "Another consequence of the 50% tax rate is the impact on special rates of tax in the pensions tax rules. Those rules operate on the basis that individuals receive tax relief at their top tax rate on pension savings up to prescribed limits. If those saving limits are exceeded, tax charges are applied to recover tax relief on contributions. The clause puts in place

powers to vary the rates for those special pensions tax charges in regulations, a point that is mentioned in the letter that has been circulated this afternoon.” Is this to be the foundation for changing the Annual Allowance Charge and Unauthorised Payment Charge to 50%?

Looking at all of this together takes me back to the theory mentioned at the start of the article, incorrect diagnosis? Is it application of the wrong remedy? You can make your own mind up.

**END**

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

**Notes for Editors**

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