

Article

A little less spin

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The new Coalition Government is leading with the strap line Freedom, Fairness and Responsibility. In their Coalition agreement a couple of statements stick out.

“The Government believes that people deserve dignity and respect in old age, and that they should be provided with the support they need. That means safeguarding key benefits and pensions, and taking action to make it easier for older people to work or volunteer.”

“We will explore the potential to give people greater flexibility in accessing part of their personal pension fund early.”

Let's be honest they have their work cut out when looking at the UK pension landscape. The Labour Government's policy on pensions lacked clear direction and will be remembered more for pilfering than pioneering.

Changing the minimum pension age to 55 from 6 April 2010 ensured that the benefits teams in pension providers around the UK were working over time. Many clients in the 50 to 54 age range exercised their right to take benefits, avoiding the need to wait to age 55.

Cut off dates like this often introduce an element of uncertainty as the key date gets closer, particularly where a transfer is under consideration and timescales are uncertain. I am aware that some advisers and clients took the decision to arrange the payment of tax-free lump sums under old schemes because they didn't believe there would be time to transfer and then crystallise before the minimum pension age went up to 55. For many their intention was to transfer to a more cost effective pension plan/SIPP once the lump sum was received and the challenges of the tax year end had been dealt with.

The A J Bell technical team spotted that there might be a problem in the legislation several months ago and raised this with HMRC. We were concerned that potential clients who had taken their cash would be prevented from transferring if they wanted to take income.

- If the client was younger than 55 could they transfer?
- If the client was younger than 55 and wanted to transfer and then receive income, would this be an unauthorised payment?

We contacted HMRC and they confirmed that this wasn't an issue. Some time later HMRC changed direction and confirmed that clients aged between 50 and 54 with crystallised benefits whilst able to transfer to a new scheme or annuitise could end up facing unauthorised payment charges. The transfer can still take place but any decision to take income will be treated as an unauthorised payment. So you can leave the accumulated fund where it is and take income and it is taxed as normal. However, transfer the fund and then take income and the client faces an additional 40% tax as an unauthorised payment on what is already taxed income!

Such a stance lacks any common sense. Any client aged between 50 and 54 who transfers then receives income now faces an unauthorised payment charge which effectively traps them in the dated existing plan until age 55.

Tax relief granted on personal pension contributions fell significantly in the 2008/09 tax year as savers simply contributed less. Some may suggest that this is a natural consequence of any recession. Whilst I accept this point, there is no doubt that constant changes have reduced consumer confidence. The changes to reduce tax relief for high earners reduced the appetite to save for many who sat outside the Government's target group for the change. Complexity and confidence will never sit along side each other when you are looking at incentives.

To gauge the opinion of advisers we surveyed a group to seek their views on the most appropriate method to restrict tax relief for higher earners - the taper system, or reducing the Annual Allowance to a more reasonable level. More than 96% of respondents favoured a reduction in the Annual Allowance. Our proposal remains to keep changes simple with a £50,000 annual allowance. The Labour Government argued against a simple reduction in the Annual Allowance

on the grounds that this would lead to a significant increase in the number of higher-rate tax payers in defined benefit arrangements facing small tax liabilities through ongoing accrual. Given that defined benefit arrangements are in terminal decline as a result of earlier Labour policies, it is difficult to support this as a reason for imposing such a complex framework.

Many years ago the Labour Government informed us that, as part of their pension simplification proposals, their aim was “to increase individual choice and flexibility and reduce administrative burdens, thereby making it easier and more efficient to save in pensions. The new single, unified regime will comprise transparent, simple and consistent rules that help people make informed decisions about working and saving for retirement.” On reflection, words like unified, simple and consistent could only be justified by a true master of spin. As the dust settles on the election let us hope that the future brings less complexity and spin with a welcome dose of common sense winning the day.

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

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