

## Article placed in Retirement Strategy

### Wide of the mark

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The senior team at A J Bell recently took part in a paint ball day. I entered the fray knowing that I am a larger than average size target and the number of bruises I now have seems to evidence that point well. It therefore made me smile when I was searching for a phrase on taxation to kick off this article and I spotted "Next to being shot at and missed, nothing is really quite as satisfying as an income tax refund."

Tax relief, as an incentive, is not perfect. However, one year in to a new Government let's hope that the speculation around changes to tax relief remains just that. There are reasonable arguments for change but there are a number of reasons why I believe the rules should be left as they are.

Payment of higher rate tax used to be restricted to the richest in society but the Government's own statistics show that this is no longer the case. Over the last 20 years the number of taxpayers has increased by 16% to almost 30 million. During the same period the number of higher rate taxpayers has increased by 250% and will exceed 4 million for the first time ever in the current tax year. In 1991/92 only 6.3% of taxpayers paid higher rate tax, in 2011/12 13.5% of taxpayers will pay higher rate tax.

It is inevitable that higher rate tax relief on pension contributions will increase as higher rate taxpayer numbers increase. The Coalition Government's policies control the amount of tax relief available to both higher rate and additional rate taxpayers by reducing the annual allowance from £255,000 to £50,000. This has proved popular with savers, since April 2011 we have experienced a significant increase in pension investors paying single contributions to pensions. It seems that the simplicity of the new rules has driven an increase in contributions which has to be good news.

Retail investors need stability, a change to the incentive system so soon would reduce the confidence of many savers. It is also worth pointing out that the growth in SIPP contributions is not all about an increasing trend for the rich. Over the last couple of years the number of new child SIPPs being established has been growing by around 116% p.a.

Many pension investors (and voters) will view pulling higher rate relief as a hit on the private sector. It would be an interesting challenge for the Government to change the rules at a time when they are struggling with the potential problems from changes to the public sector. If you compare the scale of the current Local Government pension deficit, £71.5 billion, with the cost of tax relief on contributions paid to personal pensions, around £5.4 billion p.a., it could be suggested that tackling the former rather than the latter should be the priority of the Government.

Like my failure to dodge a barrage of paint balls, the recent economic problems in the UK have left many feeling a little battered and bruised. Now is not the time to remove the satisfaction that goes with saving in the knowledge that it helps mitigate the tax you pay.

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

#### **Notes for Editors**

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