Ros Altmann: Pension tax relief will be left well alone

By **Ros Altmann** | 19th October 2018 10:23 am

Rumours are swirling about changes to pension tax relief being announced in the upcoming Budget. Predictions of a shake-up to pension incentives have been touted for many years but, so far, we have only seen tinkering rather than root and branch reform.

The £40bn from pension tax relief would come in pretty handy for a chancellor who needs to raise revenue. But will he go there?

I predict the Treasury will steer clear of radical change. Amid Brexit uncertainty, reforms that could create millions of losers and be vigorously opposed by the tabloid press are unlikely.

Then there is auto-enrolment. Throwing a spanner in the way pensions work while this is still bedding in could be a step too far.

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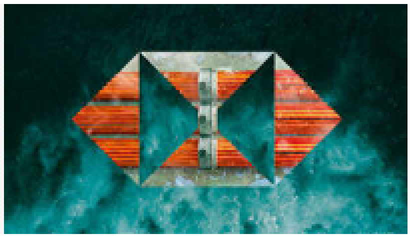
In any case, pension tax relief reform is fiendishly complicated. With so much resource devoted to Brexit, is there really much appetite for it? As pensions minister, I was deeply involved in the work on reforms in 2015/16. At that time, there was a real appetite for change.

Much work was done on a flat-rate government top-up to everyone's pension contributions, which was considered fairer than tax relief. A 30p per pound flat-rate bonus would give everyone the same incentive, regardless of their income.



But while the majority of pension savers would receive more than basic rate relief, those earning over £50,000 a year would be worse off. Also, the pension income in retirement would be taxable, which could see some receive 30p per pound top-up on contributions but face 40 per cent tax on their pot. It was considered too risky for the Conservatives.

Another sticking point was how to deal with defined benefit employer contributions or salary sacrifice arrangements, since a flat-rate top-up would not be easy. Changing tax relief for defined contribution schemes only was considered unpalatable.

There was also talk of turning pensions into Isas, with an upfront bonus of around 30p per pound but no tax recovered on withdrawal. This option had fewer losers – aside from the Treasury, for whom it would not have saved much money.

Accommodating DB schemes and salary sacrifice would also still be problematic, potentially putting significant costs on to employers.

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And then there was the behavioural element. Tax-free withdrawals undermine the idea of pensions for retirement income, since most people would just withdraw all their money as soon as possible, just in case a future government changed the rules.

So what might Philip Hammond do? He may just decide to leave pensions alone, which would probably prove quite popular. But if he is determined to cut incentive costs, the simplest way to do so would be in lowering the annual allowance. I hope he is not tempted to lower the lifetime allowance again. It should be abolished altogether but, sadly, it brings in too much revenue.

Another measure often suggested is reducing or abolishing the tax-free lump sum, but I would be shocked to see this. The Treasury appreciates this is a totemic element of the pensions landscape and changes would severely dent confidence.

Ros Altmann is former pensions minister

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