

## LAW & REGULATION

# Scrap 'rotten' taper altogether, former pensions ministers tell chancellor

By [Jem Bartholomew](#) | May 9, 2019

**Pressure is mounting on the chancellor to take action on NHS pensions, as two former pensions ministers on Wednesday called for the "fundamentally rotten" tapered annual allowance to be scrapped.**

Patients are suffering, doctors warn. To operate effectively the NHS relies on doctors working extra shifts, but many senior staff are avoiding overtime to dodge potentially large tax bills.

The taper decreases the annual tax-free allowance for pensions contributions from £40,000 to as low as £10,000 for those earning an "adjusted" income of more than £150,000 and a "threshold" income of more than £110,000. Those overstepping the limit are hit with tax bills.

Royal London now proposes abolishing the "fundamentally flawed" pensions taper altogether, even if the Treasury was forced to decrease the annual £40,000 tax-free allowance to claw back the money.

"Rather than tinkering with the NHS pension scheme, the Treasury should abolish the ludicrous and capricious system of tapering annual allowances for tax relief," said Sir Steve Webb, director of policy at Royal London and former pensions minister.

"Patient care must not continue to suffer on the altar of Treasury intransigence."

## Appetite for change

The chancellor, Phillip Hammond, has so far resisted the idea of scrapping the taper altogether, labelling the cost of pensions tax relief "eye-wateringly expensive" in October 2018. But he has hinted that more piecemeal changes could be on the table.

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[Steve Webb, Royal London](#)

There are multiple tweaks the Treasury could make that are specific to the NHS pension scheme. It could introduce a “50-50” option, used by the Local Government Pension Scheme, allowing members to choose to contribute half the normal level for half the accrual.

Alternatively, it could introduce an “enhanced opt-out” option, used by the Universities Superannuation Scheme, allowing members to cease accruing new pension rights but retain their death-in-service benefits.

But Wednesday’s Royal London [report](#) is damning on these potential tweaks. They are merely “sticking-plaster” solutions that leave the “fundamentally rotten” taper unaddressed, Royal London concluded.

The taper creates an unwelcome cliff-edge at £110,000 of threshold income, and makes taxation appear arbitrary and capricious to taxpayers, the report said.

“The best solution would be to remove a complex and unpredictable feature of the tax system – the tapered annual allowance – even if this required a reduction in the overall annual allowance,” it continued.

Calculating one’s own tapered annual allowance is complex, as the taper is calculated by the current year’s income. This makes it difficult for doctors to plan as shifts are often last minute.

In addition, overtime is not pensionable for NHS staff but does impact the tapered annual allowance, so senior doctors working extra shifts face high marginal tax rates.

In extreme cases, working an extra shift can leave doctors facing tax bills greater than the extra income they earn.

## **Industry wants end to complexity**

The report’s findings have been widely welcomed, and a consensus exists that the Treasury cannot stick to the status quo.

The British Medical Association welcomed the report. A spokesperson said: “As this report highlights, the government’s changes are delivering an unfair and unacceptable shock to a large number of doctors, especially as some are facing unexpected bills of tens of thousands of pounds.

“Urgent action is required to prevent a potentially catastrophic impact on large parts of the NHS,” they continued. The BMA has previously warned that the government risks staff walkouts if nothing is done.

Ros Altmann, the former pensions minister, said: “I certainly agree that the pensions taper should be abandoned. It is an unfair stealth tax and the complexity of the calculations is causing significant hardship, which was not intended.”

But while harmony exists on the need for change, the proposal to abolish the taper altogether has been met with reticence, as it’s likely the Treasury would be forced to lower the annual allowance to recoup the money.

Baroness Altmann said lowering the annual allowance must be avoided. This would effectively solve a problem experienced by only the highest earners by penalising other pension savers.

"The pensions of all professionals should not be reduced just to save complexity for those at the top of the income scale. That would be a major injustice. Tackle the problem at source, do not spread it across more people," she said.

With a minority government, the Treasury is unlikely to abolish the taper altogether, a move that could politically alienate other pension savers.

## How did we get here?

The pensions taper, announced by George Osborne in 2015 and rolled out in 2016, was implemented to fund an increase in the inheritance tax limit to £1m. It has suffered widespread criticism for its short-termism.

"The policy appeared to be devised in a hurry to pay for the family home allowance in the inheritance tax system that the Conservatives announced during the 2015 election campaign," said David Robbins, senior consultant at Willis Towers Watson.

Pressure mounted on the chancellor to find a policy solution with less short-term horizons. Sir Steve said: "The Treasury needs to come out of its bunker. Too often, changes to pension tax relief are made with no consultation with other departments and no consideration for the wider impact beyond the additional tax revenue.

"A lot of problems could have been solved if the Treasury had consulted with government before making this change, rather than leaving other departments to pick up the pieces for years afterwards."

NHS doctors said they want to get back to talking about patients, not pensions.

"All doctors want a simple, transparent and fair system that allows them to get on with what they want to do, treat patients, without the worry that doing extra work will actually make them financially worse off," the BMA said.

The Treasury said: "We are aware of concerns raised by NHS staff and the Treasury is discussing the issue with the Department of Health and Social Care."

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British Medical Association