

Tax January 16 2020

Tapered annual allowance solution dismissed by experts

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Pension experts have dismissed a solution to raise the tapered annual allowance threshold income, calling it a sticking plaster which would not solve the underlying problem.

According to The Times, HM

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Treasury officials have discussed raising the tapered annual allowance threshold income from the current from £110,000 to £150,000, a level at which pension contributions are counted as earnings and lower tax-free allowances start to kick in.

It was argued such a solution would solve the problem for most doctors who have been turning down additional work for fear of large tax bills, since consultants' median earnings are £112,000 and it is estimated that 90 per cent would fall below the new limit.

This solution would not be exclusive for NHS pension scheme members, and would be applied to all taxpayers.

Introduced in 2016, the taper gradually reduces the annual allowance for those on high incomes, meaning they are more likely to suffer an annual tax charge on contributions and a lifetime allowance tax charge on their benefits.

It means that for every £2 of adjusted income above £150,000 a year, £1 of annual allowance will be lost.

This adjusted income is calculated by adding the threshold income to the value of pension savings. The taper applies to individuals who have a threshold income – the gross income minus any tax relievable contributions such as pension contributions – above £110,000.

The British Medical Association, which has been campaigning for the tapered annual allowance to be scrapped, has already criticised the proposed solution.

Dr Vishal Sharma, BMA pensions committee chairman, said: "Simply, raising the threshold income would not remove any of the complexity of the taper, nor the threat of doctors facing a 'tax cliff' when their income increases through

the threat of doctors facing a 'tax cliff' when their income increases through promotion or taking on additional work.

“Indeed, unless there is also an increase in the level of adjusted income, this proposal would only make this ‘tax cliff’ steeper.”

Former pensions minister Baroness Ros Altmann also argued that just raising the threshold of earnings at which the tapered annual allowance starts “will certainly not solve the underlying problem”.

She said: “The way the taper is designed needs to be thoroughly reformed as it does not provide people, especially in defined benefit schemes, with any certainty. They still won't know in advance whether their extra earnings and pension accrual might trigger a huge tax charge.”

“In [doctors'] eyes, the safest thing to do, unless they have detailed financial advice, would be to avoid extra shifts just in case there is a problem,” she added.

In November it was announced the government would make good on any reduced pension for those who use scheme pays before the doctors reach retirement, effectively covering the tax bills for 2019-20.

Tom McPhail, head of policy at Hargreaves Lansdown, argued raising the taper threshold “would be a sticking plaster approach when more radical surgery is needed”.

“The government should grasp this opportunity to implement bold reforms to

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