Govt should be wary of cutting higher rate tax relief – Altmann

By Jack Gray 20/2/20

The government should be wary of potential plans to cut higher rate pension tax relief, which would be a "lose-lose" situation, former Pensions Minister Ros Altmann has said.

Following speculation that the Treasury is considering cutting higher rate tax relief, Altmann warned that any proposed reform of pension incentives is "enormously complicated" and the Treasury should "beware of unintended consequences".

It has been rumoured that the government is considering cutting the pension tax relief rate available to high-earning pension savers in its 11 March Budget.

Citing a previous pension tax relief "raid" by then Chancellor Gordon Brown in 1997, Altmann stated that a similar move would be "extremely unwise" and cautioned the new Chancellor, Rishi Sunak, against the idea.

She added that the government should not be cutting saving incentives when debt is already at record levels.

Altmann continued: "I hope the Treasury will analyse carefully how changing tax relief will impact both DB and DC pensions, what to do about auto-enrolment and National Insurance relief and co-ordinate with the Office for Tax Simplification about wider reforms.

"The government needs to take time to consider carefully how best to revive a savings culture and help more people build better retirement resources for the future. That certainly would not be achieved by just removing higher rate relief."

She noted that she believed a redistribution of tax relief could help improve most people's pensions, but that it would require considered thought and to not just hit high earners without benefitting other savers.

"Making the incentive of a government contribution to people's pensions more explicit could encourage better pensions. Many have suggested turning tax relief into a 'bonus' payment added to each person's pension which would be more generous than the 25 per cent added by basic rate relief," Altmann added.

"Perhaps an extra £1 added for each £3 contributed, which would be a 33 per cent bonus. This could help the majority of people to build better pensions, as well as understanding the incentive more clearly."