

## **WIRRAL COUNCIL**

### **PENSIONS COMMITTEE**

**16 NOVEMBER 2010**

#### **REPORT OF THE DIRECTOR OF FINANCE**

#### **RESTRICTING PENSIONS TAX RELIEF THROUGH EXISTING ALLOWANCES**

##### **1. EXECUTIVE SUMMARY**

- 1.1. This report informs Members of HM Revenue & Customs (HMRC) summary of responses to its discussion document on restricting pensions tax relief which was published on 14 October 2010, and proposals for change.

##### **2. BACKGROUND**

- 2.1 Following an announcement in the Budget on 22 June 2010 that the Government was considering an alternative approach to restricting tax relief, a discussion document "Restriction of pensions tax relief: a discussion document on the alternative approach" was published in July 2010. Change was deemed necessary as it is considered that the existing system gives an unfair tax advantage to high earners.
- 2.2 A copy of the technical response on the discussion document submitted to HMRC by the Merseyside Pension Fund is attached at Appendix 1.
- 2.3 The Government response to that consultation was published on the 14 October 2010.

##### **3. PROPOSED CHANGES**

###### **3.1. Annual Allowance**

The Annual Allowance is a limit against which pension benefits may increase each year whilst preserving their tax exempt status.

It is proposed that from April 2011 the annual allowance for tax-privileged savings will be reduced from its current level of £255,000 to £50,000. Tax relief will be available at an individual's marginal rate. For defined benefit schemes including the LGPS the deemed contribution will be valued using a factor of 16 against the pension plus any lump sum accrued. Individuals will be allowed to offset contributions exceeding the annual allowance against unused allowance from the previous three years.

- 3.2 It is proposed that where an individual has contributions above the Annual Allowance in a pension arrangement, pension schemes must provide members with their relevant information, including details for the previous three years.

### 3.3 **Lifetime Allowance**

The Lifetime Allowance is calculated when pension benefits become payable and is currently £1.8M. For defined benefit schemes including the LGPS the value of the benefits paid is calculated by multiplying the pension by a factor of 20 and adding any lump sum payment due. The lifetime allowance will be reduced, from its current level of £1.8M to £1.5M. The Government is minded that the reduced lifetime allowance will operate from April 2012. The Government invites views on the detail of this approach, including possible protection for those who currently have accrued benefits in excess of £1.5M and on the relative burdens for schemes and employers of implementation in 2011 compared with 2012. A copy of a response dated 27 October 2010 submitted on this matter to HMRC by MPF is attached for information at Appendix 2.

## 4. **FINANCIAL IMPLICATIONS**

- 4.1 There may be an additional Annual Allowance charge against some members with long service who receive a significant increase in pensionable pay. Other high earners may be subject to a tax charge as a result of the reduction in the Lifetime Allowance, depending upon protections that may be available.
- 4.2 MPF may incur additional administration charges through having to communicate these changes, and provide details of Annual Allowance charges for each year from April 2012 and the previous three years.

## 5. **STAFFING IMPLICATIONS**

- 5.1. There are none directly arising from this report.

## 6. **EQUAL OPPORTUNITY /EQUALITY IMPACT ASSESSMENT**

- 6.1. There are none arising from this report.

## 7. **COMMUNITY SAFETY IMPLICATIONS**

- 7.1. There are none arising from this report.

## 8. **HUMAN RIGHTS IMPLICATIONS**

- 8.1. There are none arising from this report.

9. **LOCAL AGENDA 21 IMPLICATIONS**

9.1. There are none arising from this report.

10. **PLANNING IMPLICATIONS**

10.1. There are none arising from this report.

11. **MEMBER SUPPORT IMPLICATIONS**

11.1. There are none arising from this report.

12. **BACKGROUND PAPERS**

12.1. "Restricting Pensions Tax Relief through existing allowances: a summary of the discussion document responses" – HMRC - 14 October 2010.

13. **RECOMMENDATION**

13.1 That Members note the report.

IAN COLEMAN  
DIRECTOR OF FINANCE

FNCE/216/10