**WIRRAL COUNCIL**

**PENSIONS COMMITTEE**

**11 JANUARY 2011**

**REPORT OF THE DIRECTOR OF FINANCE**

# RESTRICTING PENSIONS TAX RELIEF

## 1. EXECUTIVE SUMMARY

1.1. This report informs Members of HM Revenue & Customs (HMRC) further consultation in respect of the intention to restrict pensions tax relief on pension contributions with effect from April 2011.

## 2. BACKGROUND

2.1 The Pensions Committee last considered legislative developments affecting pension tax relief on 16 November 2010.

2.2 The Government has proposed that from April 2011 the Annual Allowance, which represents the limit by which pension benefits may increase each year and still preserve their tax exempt status, will be reduced from its current value of £255,000 to £50,000.

2.3 The Treasury and HMRC have jointly published a discussion document “Options to meet high annual allowances charges from benefits: a discussion document”. This discussion paper puts forward options for individuals to elect to meet any tax charge above a threshold (around £2,000 to £6,000) arising from exceeding the annual allowance by requiring the Pension Scheme to pay and account for the tax with an appropriate reduction in pension benefits.

## 3. PROPOSED OPTIONS TO MEET THE ANNUAL ALLOWANCE CHARGE

3.1. The document gives two approaches in which the tax charge can be met. These are “Real Time” and “Deferred Payment”

### a. Real Time

The Scheme would pay to HMRC any tax due as part of the regular Accounting For Tax (AFT) processes no later than 31 December following the year in which the tax year ended.

### b. Deferred Payment

In this scenario the tax charges are rolled up, revalued annually by reference to the interest rate on late paid tax, and paid to HMRC via AFT when the pension benefits become payable.

3.2 In both cases there would be a reduction in pension benefits to take account of the tax charge borne by the scheme. Schemes would not be allowed to levy an administration charge on the individual whose tax liability they are arranging settlement.

3.3 Comments on the discussion paper are invited by 7 January 2011 and MPF has prepared a response on the technical aspects of these two approaches.

## 4. FINANCIAL IMPLICATIONS

4.1 There may be an annual allowance charge against some members with long service who have a significant increase in pensionable pay. If they exceed the threshold they may request that MPF take appropriate measures to ensure the tax charge is met, and that the benefits payable are appropriately adjusted and accounted for.

4.2 MPF will incur additional administration charges through having to communicate these changes, and implement procedures to arrange for the settlement of the Annual Allowance charge and appropriate reduction to pension benefits.

## 5. STAFFING IMPLICATIONS

5.1. There will be an additional workload which cannot be calculated at present.

## 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. HM Treasury and HMRC document “Options to meet high annual allowance charges from pension benefits: a discussion document” published November 2010.

## 13. RECOMMENDATION

13.1 That Members note the report.

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DIRECTOR OF FINANCE

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