Government Consultation on Pensions Taxation – Appendix 2
Thoughts from around the industry

Industry pundits generally – 'the cuts could deter people from saving into a pension and make the system more complex'. Professional Pensions magazine.

Steve Webb (former Pensions Minister) – 'Single rate tax relief of 30% would encourage lower earners to save, unlike the current system which gives a greater incentive to higher earners'

Tom McPhail (Hargreaves Lansdown) – 'If the Treasury simply started treating pensions like ISAs, it risks undermining the current (and very important) incentives to make long-term retirement savings'.

Michael Johnson (Centre for Policy Studies) – 'The current EET* model of tax relief is patently failing the next generation'.

Joanne Segers (NAPF) – 'Major changes in taxation, such as a move to TEE*, ask savers to believe a future government will be able to keep the promises made by a Chancellor today' And when it comes to rules governing pensions taxation, experience shows events rarely turn out that way'.

Kevin Wesbroom (Aon Hewitt) – 'This would appear to be a genuine consultation on whether the pension tax system needs to change, rather than how. But we cannot ignore the influence of the fiscal imperative to get a suitable outcome in terms of tax revenue. A switch to ISA-style taxation switches the tax-timing for a generation and would have huge appeal to the Treasury. Individuals may have less confidence in trusting future governments to honour promises on maintaining the tax-free nature of pension pay-outs'.

Simon Laight (Pinsent Masons) – 'Moving to an ISA tax system (TEE) brings forward tax receipts for the Exchequer. It also takes higher rate tax relief away from all higher rate taxpayers, but only gives tax relief at that rate to those of them whose pensions would also be taxed at the higher rate. Let's hope that the stated aim of incentivising people to save isn't a Trojan Horse precipitating a more general raid on pensions'.

Duncan Buchannan (Society of Pension Professionals) – Pensions are a long-term investment and, unlike ISAs, benefits cannot be withdrawn before a minimum age. If pensions start to be taxed like ISAs, it is likely that most people would prefer the flexibility (and better reputation) of an ISA over a pension product, so where would this leave auto-enrolment'? 5

Lesley Harrold (Norton Rose Fullbright) – I'm not sure in the long run how fair that would be because most people, I think we can assume, earn or have a lower income in retirement than they did during their working years. They would be foregoing whatever rate of tax relief they would have had under the current system (EET) on their contributions and only getting relief on the way out at the lower rate'.

Fiona Morrison (Institute and Faculty of Actuaries) – 'The current system, where taxation applies as funds are withdrawn and taken as income or capital, enables tax to operate as a natural break on an individual over-spending early in retirement, as people generally act in ways to reduce their tax bills. Removing this natural break could mean individuals exhausting all pensions assets earlier than intended and we end up with a poorer pensioner population than expected, with the possibility of the government having to step in'.

*EET refers to the 'Exempt – Exempt – Taxable' model currently applied to 'Pension contributions – Investment Income – Pension payments' respectively
TEE refers to the ISA-style approach of 'Taxable – Exempt – Exempt' potentially to be applied to 'Pension contributions – Investment Income – Pension payments' respectively