



ACA welcomes Treasury concessions on pension taxation, although worries remain over details

15 October 2010: Following yesterday's Treasury statement on *Restricting pensions tax relief through existing allowances*, the Association of Consulting Actuaries (ACA) has welcomed the developments in the policy approach since it was first outlined in July. There are concerns for defined benefit schemes, where the remaining complexities and administrative burdens fall more heavily than for defined contribution.

"If there does have to be a pensions tax relief restriction, things have moved in the right direction", commented Karen Goldschmidt, Chairman of the ACA Pension Taxation Committee, who has been closely involved in the Treasury consultations, on behalf of the ACA since the policy review was announced. "We are glad that the Treasury has managed to square off its modelling of tax yields, to justify pushing the Annual Allowance to £50,000, higher than they had originally indicated. Freezing the level for 5 years is, less welcome and there would be a very serious reaction if the figure remains fixed at the proposed level beyond 2016."

"We are glad the Treasury has kept to the principle of the very simple aspects of operating an Annual Allowance, including a single factor for all purposes of valuing defined benefit savings – and that this factor is at the low end of their earlier indications.

"The carry-forward rule is important, especially combined with the Annual Allowance level and the factor, and will help to avoid tax charges hitting lower paid individuals and indeed "middle income earners" with long service who have atypical spikes in earnings, perhaps on promotion. But we shouldn't underestimate the impact of managing this, for pension scheme administrators.

"By accepting that the provisions should not cut across the administrative years of schemes – as requested by some – it is a shame that the transitional rules the Treasury have put in place to deal with this mean that impact of the measures for some people will start much earlier than April 2011. For example, if an individual is in a scheme that has an 'an annual allowance year' that starts on 1 August 2010, they are already subject to new rules because 5 April 2011 falls within the scheme allowance year. This may not be appreciated by the individuals or indeed the schemes concerned and, even

with some special rules put in place that might help to soften the impact, working out what actually applies in any one case is tricky.”

“What is important is that, as individuals, employers and scheme managers grapple with the new rules in the particular circumstances of their arrangements, the positive consultative arrangements with the Treasury - and HM Revenue - continue so that we do not get too many complications when it comes to practical implementation to spoil the overall simple approach,” concluded Goldschmidt.

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Note for Editors

About the Association of Consulting Actuaries (ACA)

The Association of Consulting Actuaries (ACA) is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. The ACA forms the largest national grouping of consulting actuaries in the world.