CIOT and IFS debate tax and pensions

Briefings

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There are plenty of flaws with the way we tax pension saving, but a lack of consensus about the way forward and the complexities of the various options for change is likely to scupper the chance of significant reform. That was a central conclusion from the CIOT/IFS debate, 'How should the tax system treat pension saving?' held in London on Tuesday 5 July.

Image

Carl Emmerson, Deputy Director of the IFS (Institute for Fiscal Studies) was the first of four speakers. He argued that taxing income when received is a good basis for the tax treatment of pension saving. Emmerson said that help towards saving into a pension could be better targeted. He suggested that there is plenty of scope to improve design of the tax-free lump sum, the National Insurance treatment of employer contributions and the treatment of pensions at death.

Glyn Bradley is Principal, UK Wealth, at Mercer and a member of the CIOT Employment Taxes Committee. In his remarks, he questioned why the tax regime generally gives the highest incentive to save into pensions to people with the most money. He also highlighted some peculiarities around how marginal rates of relief vary within income brackets and queried whether this was truly the policy intention. He suggested that if the government cut tax relief, the savings might be diverted to increase the state pension.

Kelly Sizer, Senior Technical Manager at the Low Incomes Tax Reform Group, gave her ‘wish list’ for complexities to avoid in any future pension system in the UK. She argued for clear and understandable rules and greater consideration of how pensions interact with welfare benefits. She welcomed the government commitment to act on the ‘net pay vs relief at source’ anomaly.

Charlotte Clark is Director of Regulation at the Association of British Insurers and was formerly head of pensions at the Treasury and Department for Work and Pensions. She argued that there is no such thing as a UK ‘pension tax system’, rather we have separate pension and tax systems, and each is trying to do something different, with separate people involved and using different levers. That is why it is so difficult to reform pensions, she said. Clark said pensions reform was high on the political agenda pre-Covid but is less so now because any anticipated Exchequer savings look less worthwhile compared to mountain of pandemic-related public debt.

An audience poll during the debate asked what one change to the taxation of private pensions people would make. A third of respondents said they would restrict upfront income tax relief to a single rate (which was the most popular answer), while just 8% said they would reform the tax-free lump sum.

Watch a recording of the debate at: tinyurl.com/CIOTIFSpensions