

# FYI<sup>®</sup> Alert

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### Budget 2020

The new Chancellor delivered his first Budget on 11 March 2020. After a Brexit Election, this could be viewed as the Coronavirus Budget, as much of the focus was on combatting COVID-19, with few announcements impacting employee benefits.

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### Changes to the tapered annual allowance

The annual allowance – how much can be accrued in, or contributed to, registered pension schemes by and on behalf of each member each tax year without penalty - is normally £40,000. The taper reduces this allowance for high earners: currently members with net income of more than £110,000 (excluding pension savings) and net income of more than £150,000 (including pension savings).

From April 2020, both thresholds will increase by £90,000, with the “threshold income” rising to £200,000, and “adjusted income” increasing to £240,000.

This generosity is mainly to address the problems faced by senior NHS staff, who have been turning down work to avoid tax bills for exceeding the annual allowance – hardly a situation the government is going to be comfortable with during the COVID-19 outbreak. The vast majority of senior NHS staff should, therefore, avoid the tapered annual allowance for pension savings from next month.

A sting in the tail is that the minimum level to which the annual allowance can taper down will reduce from £10,000 to £4,000 from April 2020, although this reduction will only affect members with total income (including pension savings) between £300,000 and £312,000. At £300,000 an individual will have a £10,000 annual allowance, but as their net income increases to £312,000 their annual allowance will continue to taper down to £4,000. The new minimum amount of £4,000 is in line with the minimum money purchase annual allowance.

## Reforming the Retail Prices Index

As expected, and having originally been promised at the start of this year, the Treasury and the UK Statistics Authority (UKSA) have launched a consultation on the proposal to essentially align RPI with the version of the Consumer Prices Index that includes housing costs (CPIH).

RPI has been used since 1956 but is no longer recognised as a National Statistic by the UKSA. The proposal to align it with CPIH is well trailed, but it is not a straight forward process, considering how widely it is still used across the economy and in financial contracts.

The consultation gauges support for when reform of RPI should take place: whether this should occur before 2030, and if so, when between 2025 and 2030.

The focus is largely on identifying any unintended consequences of the move and is seeking responses on the potential impacts on the holders of index-linked gilts, and the index-linked gilt market more widely (although it is questionable why the Treasury and the UKSA are only focusing on this specific area).

The consultation runs for six weeks until 22 April 2020. The government and UKSA will respond to the consultation before the Parliamentary summer recess towards the end of July this year.

## Tackling the net pay issue

The government has announced it will issue a call for evidence on the tax relief impact on many lower-paid employees who are members of occupational pension schemes.

There are two methods by which pension schemes apply tax relief on contributions. Most occupational pension schemes use net pay arrangements, while personal pensions generally use the relief at source method. These two systems have existed for many years and there are pros and cons with both, but the introduction of automatic enrolment, and the consequent increase in many lower-paid workers contributing to pension schemes, has drawn attention to a big difference between the two methods.

The relief at source method automatically claims basic rate tax relief from HMRC on members' contributions, while net pay arrangements adjust for tax relief before contributions are paid, whether a member is subject to basic or higher rate income tax. The downside of this latter system is that anyone earning between £10,000 and the personal allowance for income tax (£12,500) is effectively forced to pay more for their pensions, as they are denied the basic rate tax relief that they would have automatically received if tax relief was provided under the relief at source method.

The government has been aware of this issue for many years, but until now has shown little inclination to deal with it. Tackling the problem was included in the Conservatives' Election manifesto last year, and the Low Incomes Tax Reform Group did propose a potential solution to this net pay issue last year.

## Increasing the lifetime allowance

The lifetime allowance, the maximum amount a member can accrue in a registered pension scheme without penalty over their lifetime, increases each tax year by the increase in the Consumer Prices Index. The Treasury has confirmed that, from April 2020, the lifetime allowance will rise to £1,073,100.

## Comment

Pre-Budget speculation is a fact of life and there are always stories circulating ahead of the Chancellor's speech of what might come to pass. This year, a great deal of attention was devoted to the idea that the Chancellor might move to a flat rate for taxing contributions, possibly as low as 20%. Thankfully, this speculation turned out to be just that.

While there is no reason why the government should not review its pensions tax policy, pension schemes have suffered in recent years from a piece-meal approach to policy, apparently without full consideration of the impacts.

A clear example of this is the tapered annual allowance. If the then Chancellor had envisaged the issues that it would cause for senior doctors in the NHS, then he arguably wouldn't have introduced the measure. Raising the thresholds by £90,000 gives the government some breathing space with regard to unwanted headlines about the NHS, but it is not a full solution (as scrapping the taper would be). Furthermore, reducing the minimum tapered annual allowance to just £4,000 (albeit only for those earning over £312,000) is not going to increase the appeal of good pension saving in the UK's boardrooms.

At the other end of the pay scale, news that the government is at least considering the net pay issue is to be welcomed, because action is needed. The key message to workers about automatic enrolment providing them with something for free (in terms of employer contributions) is tempered for those saving in an occupational pension using net pay arrangements where they can miss out on tax relief.

Overall, this wasn't a bad Budget for pensions, partly because it was largely left alone, and also because the announcements were either well trailed or largely expected.

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