



The latest pension tax relief rumours

There have been more press reports that the Chancellor will reform tax relief for pension contributions in his March Budget.

In last July's Budget the Chancellor launched a consultation on 'tax incentivised saving'. It was a curious sort of consultation, in as much as it dwelt largely on the tax cost of the existing pension system but made few proposals about how it could be reformed. The expectation was that we would see more detail alongside the Autumn Statement. In fact, all we learned in November was that an answer would have to await next month's Budget.

Inevitably rumours and speculation have now started to circulate about what Mr Osborne might do. The latest suggest that he has abandoned the idea of turning pensions into ISAs (no tax relief for contributions, but no tax on benefits). Instead the Treasury is reported to be considering a single flat rate of tax relief, irrespective of the contributor's marginal income tax rate(s). The hints are that this might be set between 25% and 33%.

Such a change would be good news if you are a basic rate taxpayer, but not if you pay 40% or 45% tax. From the Chancellor's viewpoint a flat rate approach to tax relief could save billions in tax relief while still benefiting the majority of people putting money into pensions: at present basic rate taxpayers make half of all pension contributions but receive only 30% of the pension tax relief given.

Whether or not this reform happens, the rumours are a reminder that now is the time to review your pension contributions. Even if the Chancellor pulls a "no change" rabbit out of the hat in March, he already has two cuts lined up for 6 April in the form of a 20% reduction to the lifetime allowance and a phased reduction in the annual allowance if you are a high earner.

The value of your investment can go down as well as up and you may not get back the full amount you invested. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.