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FINANCIAL TIMES

Autumn statement: reactions from the experts

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Experts react to the measures announced in the Autumn Statement

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Reaction on pension tax relief

Patrick Stevens, tax partner at Ernst & Young, said: "The chancellor's announcement on the restrictions on pension relief to £40,000 per annum, together with a reduction in the lifetime limit from £1.5m to £1.25m, is the second time we have seen a change in this Parliament. This will deter contributions above this annual amount and will particularly impact on some of those in defined benefits schemes, including many civil servants, teachers and nurses. Last year's changes allow the resulting large tax charges to be offset from pension pots, avoiding an immediate cash charge.

Vince McLoughlin, partner at business and tax advisory firm, Russell New, said: "There was a time when investing in pensions to provide financial independence in retirement was seen as a good thing. Now we seem to be going to the other extreme and persecuting even middle-income earners. Does this now mean that we are encouraging or discouraging pension provision? I think most people could accept a drop in the annual allowance from £255,000 [the limit two years ago], but down to £40,000 could be a drop too far.

"The problem is that far from being an attack on the wealthy, as it is portrayed, the restriction to £40,000 starts to hit the middle-income earner and the heart of Tory support. It could be political suicide. Maybe a more acceptable solution would be to restrict relief to the basic rate – simple to operate and overtly equitable to all earners."

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Reaction on annual and lifetime allowance cuts

Ian Malone, lawyer in the pensions team at Taylor Wessing, said: "Many will remember pre-Budget 2011 predictions that the annual allowance would be cut to as low as £30,000 from the then comparatively whopping £255,000 – only to see a marginally-less-savage reduction to £50,000. It seems the chancellor is catching up with the 2011 prediction, using the opportunity of the Autumn Statement to announce a further cut in the annual allowance from 2012 to £40,000. The chancellor also announced that the lifetime allowance will be reduced to £1.25m from in the same tax year.'

'It is questionable whether reducing the tax efficiency of pension savings to pay for short-term priorities really fits the message that everyone should be planning for retirement. In a year which saw a television commercial for auto-enrolment featuring Theo Paphitis and Karren Brady bracketed by workers in high-vis jackets declaring 'I'm in', these changes might cause the average worker to wonder exactly what it is they are getting into."

Raj Mody, head of pensions advisory at PwC, said: "The reductions in both the annual allowance and lifetime allowances completely undermine confidence and trust in pensions. This is a direct blow to the pensions savings culture and could put pressure on the few remaining private sector defined benefit (DB) schemes to close. Employers may also be inclined to lower their contributions to defined contribution (DC) schemes to avoid inadvertently breaching thresholds.

"The trouble with repeated reductions in the allowances is that everyone will suspect further erosion to the system any time the UK economy runs into difficulty and the government needs to raise more tax revenue. Constant changes to pensions mean employers and employees are much more likely now to throw in the towel and stick closer to the minimum savings required. Moreover, reducing the lifetime allowance again not only limits people's tax-free cash at retirement but will add yet more complexity to the running of DB schemes as another form of protection is introduced.

"These changes will hit DC savers harder, which seems unfair. Someone saving the maximum of the £40,000 annual allowance into a DB scheme would receive a

pension of £2,500 a year, but a DC saver investing the same amount, may only be able to secure a pension of about two-thirds of that amount, because of current annuity prices. The cut in annual allowance means savers in DC schemes, who want to contribute the maximum amount, could be losing out on £300 of pension payments a year. It is unhelpful to reduce the allowance thresholds just at the time when the government is trying to encourage people into DC pension schemes through auto-enrolment.

"The measure is aimed at targeting the wealthy, but could in fact hit middle-income workers or long-servers in final-salary schemes. People who deliberately plan to increase pension savings later in life, rather than save a little each year, will be unfairly penalised and restricted in their retirement planning.