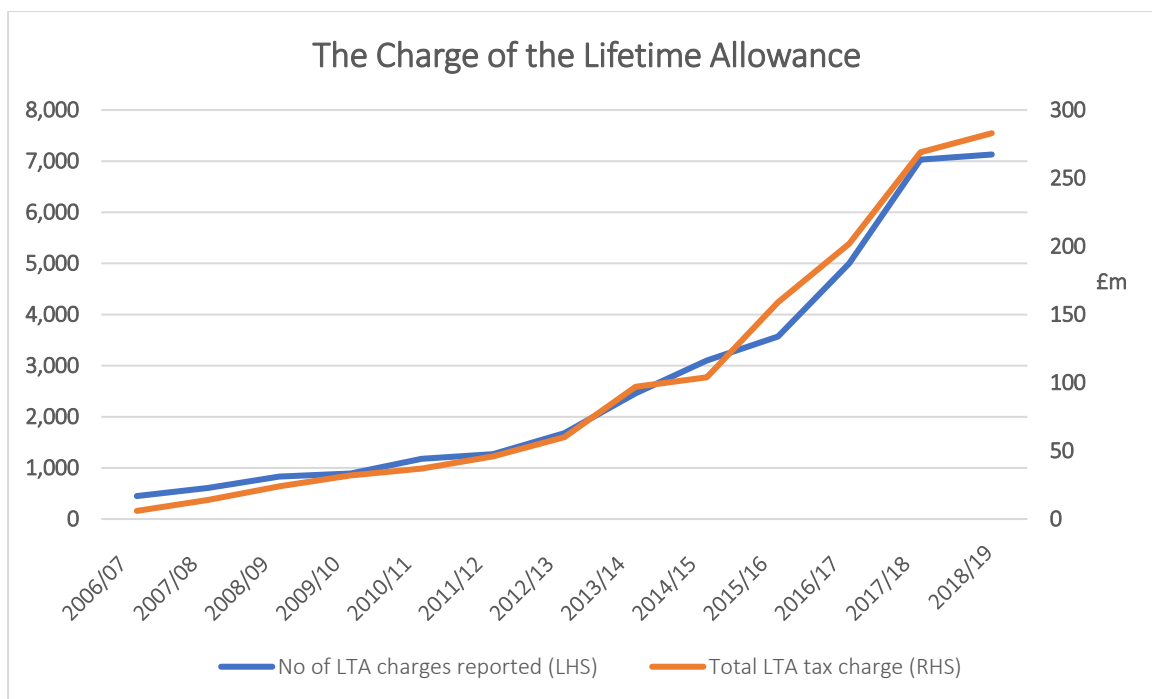


Pension lifetime allowance cuts on the horizon

New HMRC statistics show the lifetime allowance continues to be a useful revenue earner for HM Treasury, but rumoured cuts at the next Budget could be a concern for soon-to-be retirees.



Source: HMRC.

In the March Budget, the Chancellor announced that he would be freezing the pension lifetime allowance (LTA) at its 2020/21 level of £1.0731 million until the end of 2025/26. The LTA started life at £1.5 million in 2006/07 and peaked at £1.8 million in 2010/11. Since then, it has been cut three times and regularly frozen. Had the LTA merely been increased in line with the CPI since 2006, it would by now be close to £2.1 million, nearly double its current level.

The reason why the LTA has been steadily devalued is to some extent explained by the graph above, which is based on revised and updated data recently issued by HMRC. This data shows that in 2018/19 over 7,000 LTA charges on pension scheme members were reported, with total tax payments of £283 million – an average of almost £40,000 per head.

The LTA benefits the Treasury in another, more subtle way. It presents a stark disincentive to make pension contributions for anyone with retirement funds that could reach – or have already reached – the LTA. This is especially true if you have any of the various LTA transitional protections that have been introduced over the years. The rules for some types of protection are such that *any* fresh contribution revokes the protection. For example, if you have Fixed Protection 2012, £1 of pension contribution would mean you lose a protected LTA of £1.8 million, potentially leading to a six-figure tax bill when benefits are drawn.

In practice, it may not be possible to avoid an LTA charge. Some employers will not offer a salary alternative to a pension contribution and, in those circumstances, suffering the maximum 55% LTA charge is better than foregoing 100%. Higher than projected investment performance can also land you with an LTA charge.

There have been renewed rumours that Chancellor Rishi Sunak will cut the LTA in the next Budget, with threshold figures between £800,000 and £900,000 popular guesstimates. If that or any other aspect of the LTA concerns you, do seek professional advice on your options before taking action. The LTA is only one of many tax traps surrounding pensions.

HMRC loses on child benefit tax

A recent Upper Tribunal case has raised questions about HMRC's approach to collecting tax on child benefit.

Child benefit tax, or the High-Income Child Benefit Charge (HICBC) to use its legal name, has a chequered history. The HICBC was introduced in January 2013 as a mechanism for clawing back child benefit from high-income couples, whether married or not. From 2013, the definition of 'high income' has been that one (or both) of the couple has adjusted total income of over £50,000. If both cross the threshold, then the person with the highest income pays the tax.

When the HICBC was introduced, it only affected higher-rate taxpayers, but now that £50,000 threshold can also catch basic-rate taxpayers. The highest income approach means that a couple who have an evenly split income of £100,000 pay no HICBC, but their neighbours, with £60,000 of income all in one partner's name, face the full force of the charge.

The way that HICBC is levied is unusual. The charge is calculated as 1% of the child benefit received for each £100 of income above £50,000 as the example below shows.

HICBC – Example

Tom has adjusted net income of £56,000 in 2021/22 and his partner Anne has income of £25,000. They have two children for whom Anne receives Child Benefit of £35.15 per week (£1,828 a year). As Tom's income exceeds the £50,000 threshold by £6,000, he is subject to an HICBC of 60% of what Anne receives, i.e. $£1,828 \times 60\% = £1,097$.

Although an income tax charge, technically the HICBC is not a tax on income. This distinction may seem to be arcane, but in a recent case heard by the Upper Tribunal, it meant that HMRC lost its appeal. The tribunal found that a 'discovery assessment', one of HMRC's common methods of collecting HICBC from those who have not completed a self-assessment return, was invalid because it could only be used for tax due on income. There is now a major question mark over HICBC already paid by taxpayers caught by discovery assessments.

If you are within the scope of HICBC, the latest case is very unlikely to affect your future liability. For that, there are some limited mitigation opportunities we would be happy to discuss with you.

National Savings goes green

National Savings & Investments has announced details of a new green savings product.

One of the small surprises in March's Budget was the announcement that National Savings & Investments (NS&I) would be launching "a new, retail savings product to give all United Kingdom savers the chance to support green projects". No further information was given at the time and little attention shown from the media. In part, that was because NS&I was under a cloud following the administration problems stemming from its action late last year in slashing Income Bond interest rates from 1.15% to just 0.01%.

More details of the new bond, to be called the Green Savings Bond, have now emerged. NS&I have listed its key features as:

- A three-year fixed term, with no encashment during the term, beyond a 30-day cooling-off period.
- Available to anyone aged 16 and over.
- Purchase and management online only.
- The investment per person will be a minimum of £100 and a maximum of £100,000. Investments can be made jointly.
- Investors must have a UK bank account capable of receiving BACS payments.
- The Bond will be fixed rate, with interest earned daily and added once a year on its anniversary. The Bond is therefore unsuitable if you want a regular income.
- Interest is accumulated without deduction of tax at source. However, the interest is taxable each tax year an addition is made, not just at maturity.

The one key feature that NS&I did not reveal was the one of most interest: what return would the bond offer? NS&I unhelpfully said that this "will be available later in the year". The rate is likely to be short of market leading. NS&I's target for money raising in 2021/22 is £6 billion, about a quarter of what it collected in 2020/21, so it is not after massive sales. For investors reinvesting the maturity proceeds of three-year Guaranteed Growth Bonds, NS&I are currently offering a fixed rate of just 0.4%.

NS&I will be late to the green investment scene when the Green Savings Bond eventually arrives. To learn about the extensive range of green investments available *today*, please talk to us.

Social care rises up the agenda

A proposal to address social care funding is apparently imminent.

“My job is to protect you or your parents or grandparents from the fear of having to sell your home to pay for the costs of care. And so I am announcing now – on the steps of Downing Street – that we will fix the crisis in social care once and for all, and with a clear plan we have prepared to give every older person the dignity and security they deserve.”

So said Boris Johnson when he first entered 10 Downing Street over two years ago. So far, no plan has emerged, but anyone who has followed the issue of social care funding knows that delay is par for the course. A Royal Commission on the subject was conducted back in 1999 and there have been various enquiries, reports and proposals since.

Ten years ago, a review initiated by the coalition government and undertaken by Sir Andrew Dilnot proposed a funding structure that looked as if it would provide a resolution. The Care Act 2014 set up a framework broadly following Dilnot’s principles, but in 2015 the government announced it would defer implementation. The delay eventually morphed into a promise of a social care White Paper, the publication of which has in turn been constantly deferred.

The pandemic’s impact on nursing homes, combined with the clock ticking on the Prime Minister’s 2019 statement, has brought care funding back into focus. There were rumours that an announcement would be made before parliament went on its summer holidays, but that was before the three main protagonists – the Prime Minister, Chancellor and Health Secretary – were forced into Covid-19 self-isolation. Some press reports said that the perennial problem – the cost – would be addressed by increasing all National Insurance rates by 1%, breaking a 2019 Conservative manifesto commitment. Others have suggested a similar approach, but with the 1% levies branded as a new NHS/Care tax.

Whatever does finally emerge – if anything – it is likely to require a means-tested ‘personal contribution’ of £50,000–£100,000 before the state chips in. This is one more item that needs to be built into your retirement planning.

No room for giveaways in OBR risk report

The Office for Budget Responsibility (OBR) has given Rishi Sunak its new worry list. It gives the Chancellor little wriggle room for potential Budget generosity.

Every alternate year the OBR must issue a Fiscal Risks Report (FRR). Unlike the six-monthly economic outlooks the OBR produces for Budgets and (theoretically) Spring Statements, the FRR takes a longer view of the UK's financial position and the risks it faces. Past reports have been, in the OBR's words, "encyclopaedic", but in 2021, the FRR focused on just three areas:

- **Coronavirus (Covid-19) pandemic:** The OBR says that despite all that has been spent to date, there is an as yet unfunded need for another £10 billion a year to cover:
 - NHS programmes such as test and trace, revaccinations and the backlog of 3.5 million elective treatments;
 - catch-up schooling for pupils; and
 - "the holes in the fareboxes" of the railways and Transport for London created by the collapse in passenger numbers.
- **Climate change:** While the government has said much about climate change, the OBR highlights one elephant in the room that would frighten any politician: the loss of revenue from fuel and excise duties in an all-electric world. The OBR says these are worth about 1.5% of Gross Domestic Product (GDP) – £33 billion. In the short term, some of the lost income may be replaced by carbon taxes, but in the long term the hole will have to be filled.
- **Government debt:** Government debt is currently just about equal to one year's output of the UK economy, against 40% in 1980. However, at present, the net interest the government pays on that debt is less than a quarter of the 1980 bill (as a proportion of GDP). Ultra-low interest rates are the reason, but the corollary is that even only a small rise in rates would increase that cost significantly.

As we went to press, the Chancellor asked the OBR to work on its next six-monthly report for presentation on 27 October. That might be Budget Day, although many commentators believe Rishi Sunak will wait until spring, ditching the Autumn Budget once again. Whether or not that happens, the OBR's message is that the Chancellor cannot afford any giveaways. You have been warned.