Recent Newspaper Articles On The Possible Abolition Of Tax Free Cash

Over the last few days there have been a number of articles suggesting that George Osborne is considering abolishing the tax free cash lump sum in his Budget on 16 March. There have been similar pre-budget rumours about the removal of the tax free lump sum in recent years, but nothing has happened to date. These recent articles are based on comments by Steve Webb of Royal London who previously worked with the Treasury on pensions' reform during the coalition government.

Our view is that a retrospective attack on the 25% tax-free tax free lump sum is unlikely but not impossible.

We are expecting some form of pension reform in the Budget given the Chancellor's announcement of a consultation on pensions and pension tax relief last year. In our view it is more likely that any changes to the tax-free pension lump sum would apply to future pension contributions as part of a more fundamental change to pension tax reliefs in the form of a new pensions ISA.

The ability to take up to 25% of a pension fund as a tax free lump sum represents a significant tax benefit for savers but is estimated to cost HMRC around £4 billion of lost tax revenue each year. The Chancellor has already taken steps to limit the tax free cash lump sums available to large pension funds by progressively reducing the Lifetime Allowance and hence the maximum amount that individuals can take tax-free. Any further attack on existing pension rights is likely to be seen negatively and would represent a fundamental breach of trust for savers who have made pension contributions in the expectation of receiving a tax free payment from their funds on retirement.

Whilst we would hope that any changes to pensions will not be retrospective, the ultimate decision will be political and politicians of all parties have shown a damaging tendency to tinker with pensions system in an attempt to limit tax reliefs and allowances. For individuals considering taking benefits in the next few months it might be possible to remove this uncertainty by taking benefits before the Budget on 16 March, but this is a highly regulated area of advice and will require some careful advice and thought.

If you have any queries about your pension position please do not hesitate to contact us.

Martyn Torevell

Feb 2016