

Restriction of pensions tax relief – administration issues

- Clarification on process and administration needed urgently to help planning
- Concern that government is setting unrealistic deadlines for pension schemes

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Mercer has called for urgent clarification of [government proposals](#) concerning the processing and administration of changes resulting from the restriction of pensions tax relief for high earners. It has also expressed concern that the government is setting unrealistic deadlines for pension schemes.

The previous government's proposals called for pension schemes to pay tax charges on behalf of members. According to Mercer, this 'scheme pays' proposal would have been extremely difficult to operate and administer, if not unworkable, with a high risk of errors and the need for monitoring and support. More broadly, Mercer also believed it was inappropriate to pass the burden of tax collection to pension scheme trustees.

The current government now anticipates that employers will redesign their pension benefits to minimise the potential levels of tax payable by employees, therefore resulting in no need for 'scheme pays'. However, Mercer believes that this anticipated scheme redesign is unlikely to happen in less than a 2-3 year period, let alone by April 2011 when HM Treasury proposals are due to come into force. 'Scheme pays', therefore, is likely to remain in some format.

"This is a critical area for the government and as yet it is unclear what direction this is headed," commented Rosie Kwok, Technical Manager in Mercer's Outsourcing business. "Details must be forthcoming soon to help trustees and members with their planning."

"If the 'scheme pays' concept is maintained, we believe it must be simple for schemes to process and members should easily understand how their benefits are calculated. Any new 'scheme pays' process would also need to allow schemes and members realistic timescales for providing information and making decisions on whether to proceed and on payment of tax," she added.

Under the previous proposals some of the timescales placed on different parties ran concurrently, so that the longer one party took to provide information, the less time there was for the other party to respond.

Ms Kwok added: "We are concerned that trustees are given the choice of aligning their pension input period with the tax year period, as the former is normally the same as the scheme year. It could be a logistical challenge for administrators to deal with annual renewal and new tax-related processes in the same window, instead of spreading this work across the whole year. As a minimum, a period of transition would need to be built in."

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Notes for editors

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