Association of Accounting Technicians response to the HM Treasury consultation "Reducing the money purchase annual allowance"

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1. Introduction

1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the HM Treasury consultation "Reducing the money purchase annual allowance", published on 25 November 2016.

1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving sound and effective administration of taxes.

1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.

1.4. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities of implementing the measures outlined.

1.5. Furthermore, the comments reflect the potential impact that the proposed changes would have on individuals who have already accessed their pension savings flexibly who then makes further direct contribution pension savings.

2. Executive summary

2.1. **AAT supports the general direction of the Government's pension freedom and choice reforms**. AAT shares the Government's concern that the current reduced money purchase annual allowance (MPAA) of £10,000 offers the opportunity for individuals to avoid large amounts of tax and National Insurance Contributions by re-cycling pension contributions.

2.2. **AAT previously raised the issue of re-cycling of pension contributions, created by the pension freedoms changes, in its response to the Treasury's 2015 consultation Freedom and Choice in Pensions[1].** One of AAT's proposals for solving or reducing the extent of the re-cycling problem put forward by AAT was a £5,000 reduced MPAA, creating a similar impact to the Treasury's current proposal of a £4,000 reduced MPAA.

2.3. **AAT supports a reduced MPAA of £4,000 as long as provision is made for it to increase in line with inflation and agrees with the Treasury that the number of people likely to be negatively impacted by it will be small**. However, it should be pointed out that for some individuals who trigger the MPAA by drawing pension benefits who later join a generous employer-sponsored pension scheme, the negative impact could be significant in terms of tax penalties where contributions exceed £4,000 a year. It is therefore imperative that individuals drawing pension benefits be fully informed of the potential financial consequences of a reduced MPAA.

2.4. **AAT is concerned that the new reduced MPAA should not apply to people who drew pension benefits before April 2017** when the new rules are due to take effect. It is expected that a significant number of people will be affected given that in the first 12 months following the introduction of pension freedoms in April 2015, 300,000 people withdrew cash lump sums, thereby triggering a reduced Money Purchase Annual Allowance for future contributions, according to figures from the Pensions Policy Institute[2].

[1] AAT response to the Treasury consultation on "Freedom and choice in pensions"

[2] Chart 23 http://www.pensionspolicyinstitute.org.uk/publications/reports/the-future-book-unravelling-workplace-pensions,-second-edition-2016

3. AAT response to the HM Treasury consultation "Reducing the money purchase annual allowance"

Question 1. Do you agree that a £4,000 MPAA would minimise re-cycling pension savings and that, coupled with ongoing monitoring, the new MPAA will allow the continued successful roll-out of automatic enrolment?

3.1. AAT agrees that a £4,000 MPAA will minimise re-cycling of pension savings. Without this change, individuals over the age of 55 could utilise the ability to withdraw pensions freely to channel £10,000 a year of salary through their pension pot, avoiding income tax and both employer and employee National Insurance contributions.

3.2. As noted by the Treasury, in paragraph 3.12 of the consultation document, the maximum currently payable under auto-enrolment will be £2,974 in 2019 when contribution levels reach their full level. Therefore, an MPAA of £4,000 will not impact auto-enrolment under current contribution rates. However, auto-enrolment contribution rates increase each year to reflect inflation. It is therefore imperative that provision be made to ensure the new reduced MPAA also increases in line with inflation.

3.3. The government should acknowledge that as a general principle, the MPAA should always be above the maximum combined employer/employee contribution through auto-enrolment. With auto-enrolment to be reviewed in 2017, calls are growing for an increase in contributions that could take maximum contributions over £4,000[3].

Question 2. Is there any evidence that setting the MPAA at £4,000 would impact disproportionately on particular groups?

3.4. The only groups likely to be impacted are those using the current rules to re-cycle pension contributions against the spirit of the new regulations, and higher earners over the age of 55 who leave the workforce and then rejoin it again. AAT supports the aim of restricting pension contribution re-cycling. However, legitimate use of pension freedoms by those working more flexibly through retirement will now be severely curtailed. The UK's workforce is ageing rapidly. The employment rate for workers aged 50 to 64 has grown from 55.4 to 69.6 percent over the past 30 years, while for those aged 65 and over it has more than doubled, from 4.9 to 10.2 percent[4].

3.5. Older workers will increasingly find themselves leaving and rejoining the workforce. The ability to access pension assets flexibly and then carry on contributing to pensions through subsequent employment is attractive to this group. Under the proposed reduced MPAA an individual aged 55 accessing pension and then subsequently joining an employer with a pension scheme that is more generous than the auto-enrolment minimum could find themselves faced with tax penalties for breaching the MPAA. This loss of flexibility is regrettable, but, as set out in AAT's 2015 consultation response, referred to above, full flexibility cannot be reconciled with the removal of the opportunity to avoid tax and NICs through re-cycling.

3.6. Administrators and providers of pensions should be required to make fully clear to individuals, planning to make withdrawals from pensions, of the impact of the MPAA in order to lessen the negative effects. Pension administrators and providers should also be required to make clear to individuals that taking tax-free cash through a drawdown arrangement does not trigger a reduced MPAA, whereas making a withdrawal through an Uncrystallised Fund Pension Lump Sum does.

3.7. Consideration should also be given as to whether an exemption from triggering the reduced MPAA should be given for those accessing pension within 12 months of ceasing employment. Individuals in this situation could retain the £10,000 MPAA. This would enable individuals switching between work and retirement to continue making significant contributions to a pension.

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[3] Article Aviva calls for 12.5% auto-enrolment contributions published 15 November 2016
[4] DWP Employment statistics published November 2015

Other observations

3.8. AAT notes that the consultation document does not mention whether the proposed reduced MPAA is to be applied retrospectively, that is, to those who have already accessed pension assets. This would be very unfair as these individuals accessed their pension on the understanding they would be able to contribute £10,000 a year in future.

4. About AAT

4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and 90,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, AAT Technical Consultation Manager, at:

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