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Abigail Coskun
Department for Work and Pensions
Caxton House
Tothill Street
London
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Via email: caxtonhouse.retirementdecisionscallforevidence@dwp.gov.uk

Dear Abigail,

Helping savers understand their pension choices

The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all.

The call for evidence explores what support members of pension schemes need to help them make informed decisions about how to use their savings. It does not mention the tax consequences, except at paragraph 46 where there is a brief mention of 'tax-free cash' and individuals struggling to make investment decisions.

We think that the tax consequences to accessing pension savings are an important consideration when trying to understand pension choices.

Our response to the call for evidence is limited to the following two questions:

Question 6a: What information do members need in the run up to retirement such as from age 40-50?

Question 6b: What information do members need from age 50?

We believe that when deciding how an individual uses their pension savings, that individual should be aware of the tax consequences of their decisions. In particular, we are concerned that individuals accessing their pensions savings are rarely made aware of the tax consequences of their decisions. While we do not expect financial advisers to be tax specialists, we do believe that the information issued to individuals in the years leading up to their retirement (or earliest retirement age) should include, for example, details of:

- That up to £500 may be withdrawn from pension savings tax-free to pay for pensions advice (and how often this can be done);
- The annual and lifetime allowances for pension contributions, and the tax charges that can arise if these limits are exceeded, including when the limits are tapered for higher incomed individuals;
- The anti-avoidance provisions on recycling tax-free lump sums into further tax-relievable pension contributions;
- The limitations on future tax-advantaged pension contributions once pension savings have been accessed (for example, when the money purchase annual allowance applies);
- That income withdrawals from drawdown funds are subject to tax as pensions income, and that withdrawing all such funds in one tax year may result in the individual being liable to higher marginal rates of tax than they would have been had those funds been drawn on over a number of tax years; and
- That where a trivial commutation lump sum is available only 25% of the lump sum is tax-free and the remainder is taxed as pension income.

We also think that communications from pension schemes to members telling them that they are under-funded will scare individuals rather than help them (see, for example, paragraph 27 of the call for evidence and the reference to 'wake-up packs'). We think it would be better to provide earlier notification of potential under-funding by referencing the amounts that current contributions are projected to provide as retirement income compared to what could be achieved through increasing contributions, so that individuals can better understand the importance of increasing pension contributions rather than scaring them with notifications of under-funding. This should include information on the annual allowance (and the limitations on the carry-forward of unused allowance).

Furthermore, we think that how this information is portrayed to individuals is going to be key. If one considers that many pension savers may not have a good grasp of English, and even those who do are unlikely to have a good grasp of the complicated pensions tax system and its terminology, we consider that it is important that the information provided is as clear and simple as possible to help individuals make informed decisions. Ultimately, people need encouragement, rather than fear, to understand the options open to them.

Yours sincerely,

Matthew Brown
Technical Officer, CIOT Employment Taxes Committee and Pensions Tax Working Group

The Chartered Institute of Taxation

The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.

- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.

- Greater certainty, so businesses and individuals can plan ahead with confidence.

- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).

- Responsive and competent tax administration, with a minimum of bureaucracy.

The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.