Pensions Tax Relief – Opposition Policy Costing

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Description of policy
The proposal is to restrict pensions tax relief on pensions contributions for those earning over £150,000 to the same rate of relief as for a basic rate tax payer (20%). The sources for the policy costing are: **Opposition Press Release**: "The Compulsory Jobs Guarantee will also apply to adults aged 25 or over claiming Jobseeker's Allowance for two years or more and will be funded for the whole of the next Parliament by:…restricting pensions tax relief for people earning over £150,000 to the same rate as basic rate taxpayers." (9 March 2014) http://press.labour.org.uk/post/79110402681/next-labour-government-will-guarantee-starter-jobs **Shadow Chancellor of the Exchequer Speech:** "We will fund this by a repeat of the tax on bank bonuses and by restricting pension tax relief for the very highest earners to the same rate as the average taxpayer." (23 September 2013) http://press.labour.org.uk/post/62052732090/ed-balls-mps-speech-to-labour-party-annual
Additional policy assumptions
1) It is unclear what "earnings" are defined as under the opposition proposal. The costing has therefore been provided based on three definitions of earnings: o Gross earnings (Personal Allowance + Taxable Income + Employee Contribution) o Gross earnings plus employer pension contributions (Personal Allowance + Taxable Income + Employee Contribution + Employer Contribution) o Earnings net of pension contributions (Personal Allowance + Taxable Income) 2) The policy would be introduced in May 2015, but the restriction would not come into force until the tax year 2017-18. This two year delay is to give individuals on incomes of £150,000 and over, industry and HM Revenue and Customs time to prepare for the new arrangements, and to allow the Government to consult individuals, business, pension fund trustees, the pensions and insurance industries, and other stakeholders on the implementation of the new system. This assumption is in line with a previous consultation on a similar policy, which was published in December 2009. 3) The costing assumes that pension contributions and earnings carry on as they would have been in the absence of the policy (i.e. that the costing does not take into account any behaviour). 4) The costing assumes that processes for pension schemes, employers, individuals and HMRC are put in place so that the tax charges can be identified and collected.
Additional technical modelling assumptions or judgements required

The tax base (pension contributions) are estimated using HMRC KAI's Personal Tax Model, based on the 2011-12 Survey of Personal Incomes, projected in line with OBR Autumn 2014 forecasts. Pension contributions are estimated using a combination of HMRC administrative data and ONS survey data. Although based on data from 2011-12, the modelling does take account of subsequent restrictions to the Lifetime and Annual Allowances.

To arrive at an estimate of the yield we identify contributions from individuals affected which are relieved at the additional rate, and then calculate the yield from a 25% tax charge on these contributions to recoup relief given in excess of the basic rate.

If needed, information required on distributional effects of the policy

Cost/Revenue to the Exchequer over five years

	Revenue				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Gross Earnings	0	0	0	£1.7bn	£1.4bn
Gross Earnings + Employer Contributions	0	0	0	£2.0bn	£1.6bn
Earnings net of pension contributions	0	0	0	£1.6bn	£1.3bn

- These costings are on a static basis and therefore do not factor in any behaviour.
- The figures above are on a National Accounts Basis, hence take into account the timing of tax collected through self-assessment.

Distributional effects (if none requested, any significant):

The population affected will depend on the definition of earnings used.

The earnings definition which generates the most revenue from this measure also affects the largest number of individuals, including several individuals who have taxable incomes below £150,000 (i.e. individuals who are not additional rate taxpayers).

By contrast, the most lenient definition (which raises the least revenue) is set such that only individuals whose income net of pension contributions is above the additional rate threshold (i.e. individuals who are additional rate taxpayers) are affected.

Comparison with current system (if applicable):

Other comments (including other Departments consulted):

HMRC have been consulted on this costing. Their Knowledge, Analysis and Intelligence (KAI) division have provided the costing estimates.	
To be completed by Permanent Secretary's Office Date costing signed off:	18 December 2014
[If applicable] Date revised costing signed off:	22/12/2014