

TAXATION OF PENSIONERS

The taxation of pensioners is often seen as overly complex, with many pensioners subject to PAYE before retirement, but self assessment afterwards, when they may have several small sources of income that may or may not need tax deducted.

The Government has therefore commissioned the Office of Tax Simplification to conduct a review of the system of pensioner taxation and make recommendations to the Chancellor on how to simplify the tax system and ease tax administration for pensioners.

The Office will provide an initial report to the Chancellor by Budget 2012 that:

- Examines evidence and identifies the areas of the tax system that cause the most complexity and uncertainty for pensioners;
- Identifies how these issues vary within the pensioner population; and
- Explores what changes could achieve simplification and what the wider implications of these might be

In particular the review should:

- Draw on evidence provided by pensioners, tax professionals, the pensions industry and representative bodies; as well as analysis of tax payer data and academic research
- Consider all HMRC taxes and compliance responsibilities that impact on pensioners, including the administrative burdens imposed – however, inheritance tax and tax relief for pension contributions are not within the scope of this review

If the review of evidence presents a case for change then the Office will go on to produce a final report later in 2012 with specific recommendations.

Both the interim report and final recommendations should have regard to:

- the Government's work on merging the operation of Income Tax and NICs;
- other work within Government, such as the coalition commitment to increase the personal allowance and the flat rate state pension, as well as related reports by the National Audit Office and the Public Accounts Committee;
- the wider economic and policy implications of any proposals – including impact on individual pensioners, fairness between different tax payers, wider Government policy and tax receipts
- the risk of non-compliance and avoidance opportunities;
- The Spending Review resource constraints on HMRC

The Office's work will be informed by consultation with interested parties, including forming and working with a consultative committee.