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Lord Davies of Brixton
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5th March 2024

Dear Bryn,

I would like to thank you again for your contribution to the Finance Bill Debate held on the 21 February. During the debate I committed to write in response to your questions that I was unable to address during the debate itself.

You first raised the interaction of the State Pension with the Personal Allowance. In general, benefits that are designed to replace income are taxable. This includes the State Pension. However, the Personal Allowance will continue to exceed the basic and full new State Pension in 2024/25. This means that pensioners whose sole income is the full new State Pension or basic State Pension will not pay any income tax.

The Government made the difficult but necessary decision to maintain income tax thresholds at current levels until April 2028 to ensure the tax system supports strong public finances.

If a person has tax to pay which cannot be collected through PAYE, whether that is because they have no employment or occupational/private pension and they are not already a self-assessment taxpayer, then HMRC may issue them with a Simple Assessment to explain what tax they owe and how to pay it, well in advance of any payment needing to be made.

People do not have to complete anything, they are simply asked to check the Simple Assessment to ensure it is correct. Information on Simple Assessment can be found online:

Tax overpayments and underpayments: If you have not paid the right amount of tax - GOV.UK (https://www.gov.uk/tax-overpayments-and-underpayments)

Check your Simple Assessment tax bill - GOV.UK (https://www.gov.uk/check-simple-assessment)

Pay your Simple Assessment tax bill - GOV.UK (https://www.gov.uk/simple-assessment)

If someone recieves State Pension on top of another income which takes them over the tax free personal allowance but they have not been taxed, they should contact either HMRC, their employer or pension provider.

You also raised the taxation of private pensions, specifically asking why, at Spring Budget 2023, the Government announced that it would abolish the lifetime allowance, and increase the annual allowance from £40,000 to £60,000. In addition, the Government announced that it will link open and closed public service pension schemes for a given workforce for the purposes of calculating annual allowance charges, thus allowing members to offset any negative real growth for annual allowance purposes in legacy public service pension schemes against the annual allowance. These changes will help incentivise highly-skilled and highly-experienced individuals at the top of their professions to remain in the labour market which will help grow the economy while increasing the knowledge and experience of the UK's labour force.

These changes will help to prevent our most experienced workers retiring early – such as senior clinicians, air traffic controllers and senior teachers. These measures will also ensure that doctors in the NHS are not disincentivised from remaining in their roles and taking on extra hours, enabling them to treat as many patients as possible and helping to deliver on the government's NHS commitments.

Dr Vishal Sharma of the British Medical Association has said that these changes are an "incredibly important step forward", with the abolition of the lifetime allowance meaning "senior doctors will no longer be forced to retire early and can continue to work within the NHS, providing vital patient care". Dr Sharma has also welcomed the increase to the annual allowance, stating that it will "significantly reduce the perverse incentive to reduce hours due to pension tax".

Regarding your comments on the tapered annual allowance, at Budget 2020, the Government increased the two thresholds above which the tapered annual allowance applies by £90,000 from 6 April 2020.

In addition, at Spring Budget 2023, alongside abolishing the lifetime allowance and increasing the annual allowance, the Government announced that the annual allowance will only begin to taper down for individuals who have total income (including pension accrual) above £260,000.

The minimum level to which the annual allowance can taper down has been increased from £4,000 to £10,000 from 6 April 2023. This only affects those with total income (including pension accrual) over £360,000.

The tapered annual allowance is therefore focussed on the highest-earning savers, to ensure that the benefit they receive from tax relief is not disproportionate to that of other pension savers. Savers can continue to make significant amounts of pension savings tax-free, while incentives to save are targeted across society.

The Government believes it has the right approach to ensuring the wealthy pay the right amount of tax while supporting our vital public services and also maintaining the UK's attractiveness as a place to work.

Finally, you asked about the changes being made to Public Service Pensions Schemes (PSPS), the Government has listened to concerns raised regarding the interaction between inflation and PSPS. This is why, in addition to the increase in the Annual Allowance from £40,000 to £60,000 and the abolition of the lifetime allowance, the Government announced at Spring Budget 2023 that members of PSPS would be able to offset a notional negative Pension Input Amount (PIA) for their closed legacy pension scheme against a positive PIA for their active pension accrual in a reformed scheme for the same workforce. However, allowing a negative PIA across both schemes to be carried forward into the next year would be a more fundamental change to the pension tax system, and would put high earning public servants in a privileged position compared to their private sector equivalents.

I would like to thank you once again for your contribution to the debate. I am copying this letter to all speakers of the debate, and a copy will be placed in the Library of the House.

Yours,

Charlotte

BARONESS VERE OF NORBITON