



FINANCE BILL 23-24 CLAUSE 14: PROVISION IN CONNECTION WITH ABOLITION OF THE LIFETIME ALLOWANCE CHARGE, AND SCHEDULE 9 PENSIONS

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Briefing for MPs on the **Finance Bill** by ICAEW Tax Faculty.

For questions on this paper please contact ICAEW's Tax Faculty at taxfac@icaew.com quoting REP 6/24.

This response of 5 January 2024 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's *Ten Tenets for a Better Tax System* are summarised in Appendix 1.

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EXECUTIVE SUMMARY

1. The FB legislation works contrary to the government's stated commitment to embedding simplification in the tax system.

THE MEASURE

2. This measure removes the lifetime allowance (LTA) for the purposes of taxation of pensions. Provisions allowing an individual to access 25% of their pension tax free up to the LTA threshold of £1,073,100 are replaced a computation of a new 'permitted maximum' figure. Income in excess of the 'permitted maximum' figure is subject to income tax at the individual's marginal rate.
3. Due to the length of the legislation and the short timeframe within which to respond, we have not scrutinised the provisions in detail. Given that the legislation significantly expands on the draft legislation, time and costs could have been reduced for those considering the Bill if a tracked changes version of the document had been made available. Publishing a tracked changes version of proposed legislation in future would assist in useful feedback and identification of any issues.

OUR CONCERNS

4. The proposed measure increases the complexity of the taxation of pensions rather than streamlining it. The measure is highly complex, requiring 99 pages of legislation, which goes against ICAEW's tenet of simplicity (see Appendix 2). This is almost two and a half times the length of the draft legislation released in July 2023, which we suggested was already too lengthy. Aside from its length, the measure introduces new terminology and computations, increasing the risk of misunderstanding by taxpayers, advisers, and agents.
5. The pension reforms introduced in Finance Act 2004 were intended to significantly simplify the taxation of pensions. However, there have been multiple changes since then. Constant change to the taxation of pensions undermines the certainty that taxpayers desire when saving for retirement. This works against the tenet of constancy (see Appendix 2), which is key for such long term tax measures. ICAEW suggests that any further changes to the taxation of pensions be resisted unless the uncertainty and complexity introduced by such change are entirely justified by the estimated impact of the measure.
6. The introduction of the measure contradicts the government's stated commitment to 'embed tax simplification' in the formulation of tax policy. Taking the length and complexity of this legislation as an example, it is difficult to see how the government's tax simplification agenda will deliver the simplification of the UK tax system that is urgently needed. Rather, such measures actively work against this goal.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see <https://goo.gl/x6UjJ5>).