

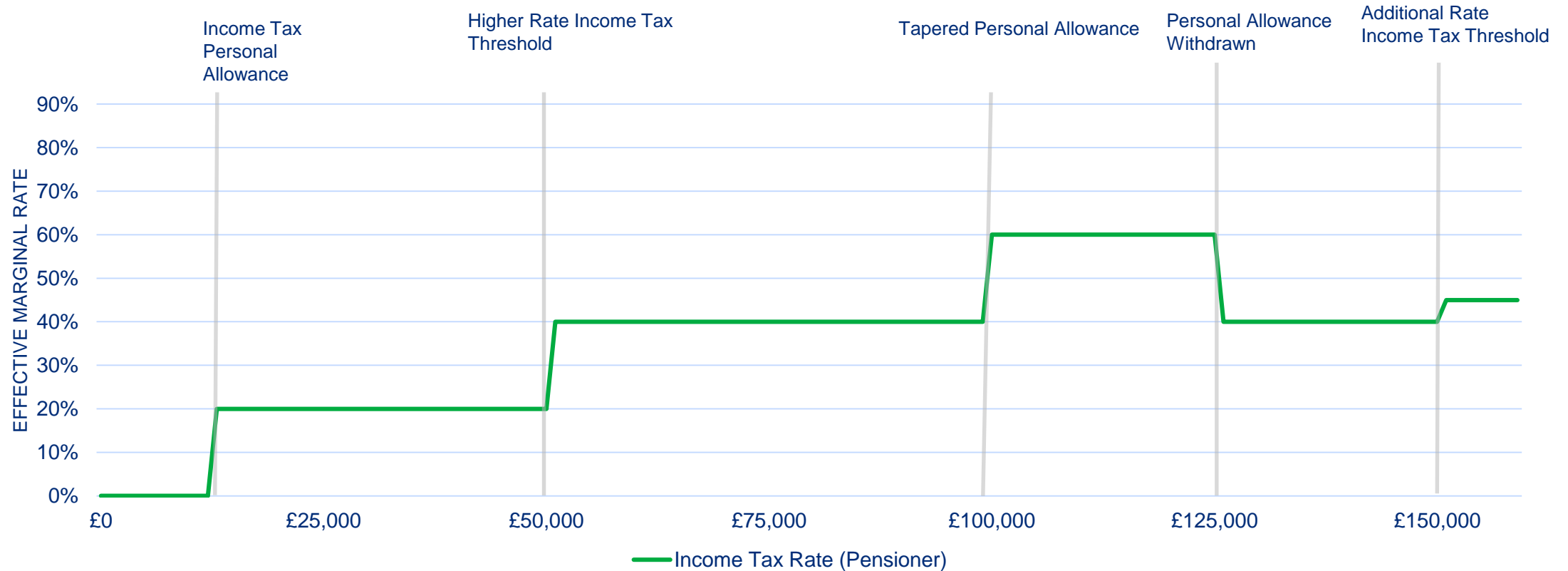
How should the tax system treat pension saving?

CIOT/IFS debate

5 July 2022
Glyn Bradley FIA,
Principal

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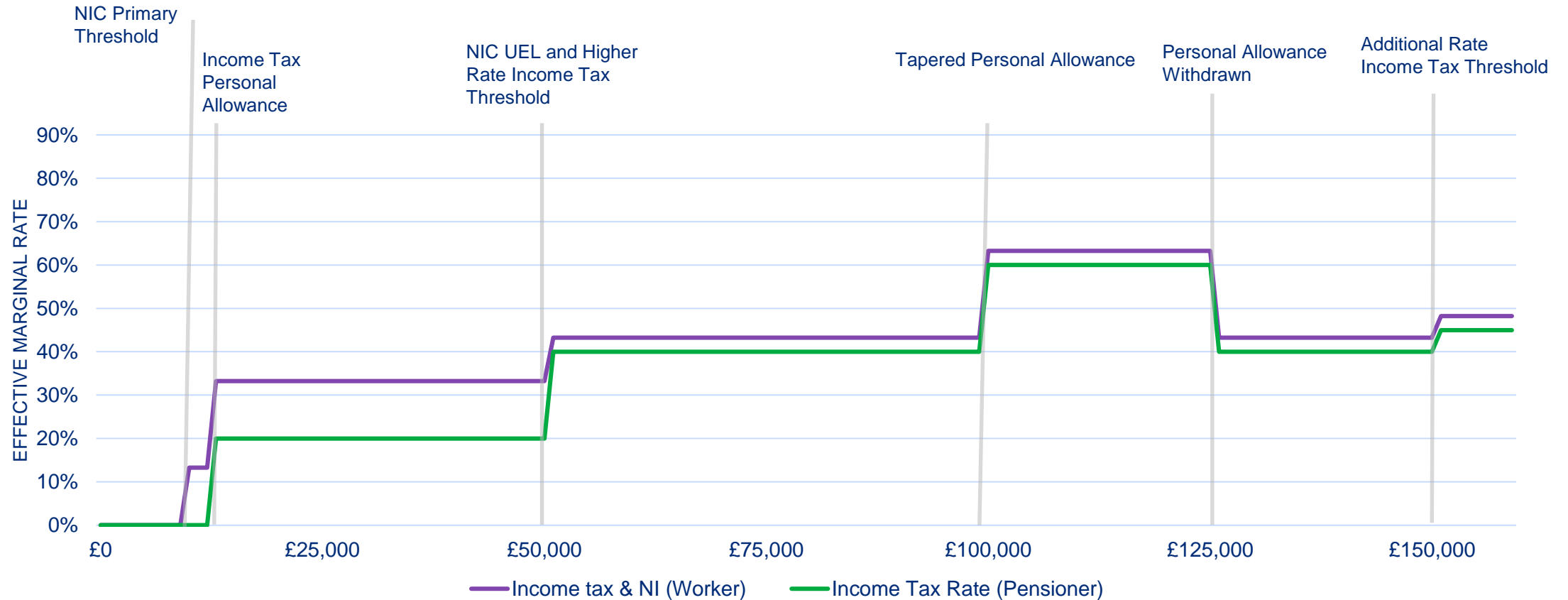
Combined HMRC deductions from gross income



Notes: 2022/23 standard rates for employees resident in England and, where applicable, English university graduates starting courses in or after September 2012. Interactions with benefits and other taxes ignored.

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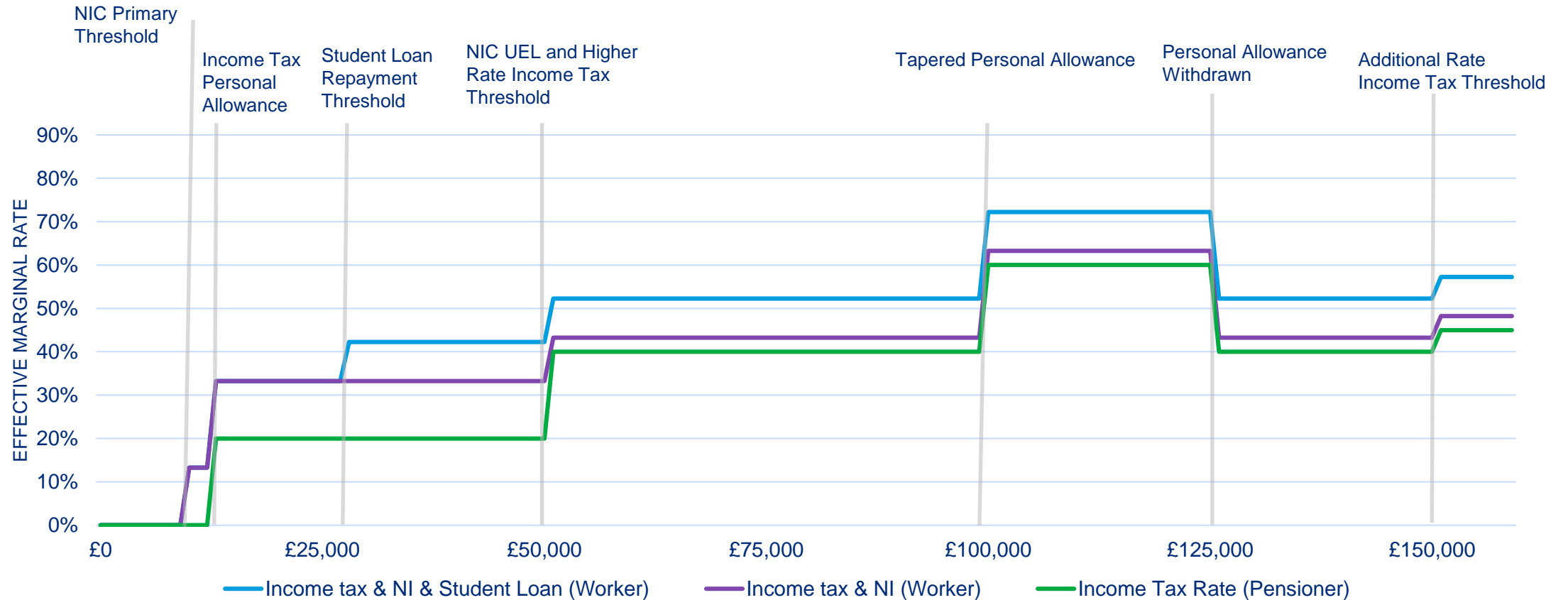
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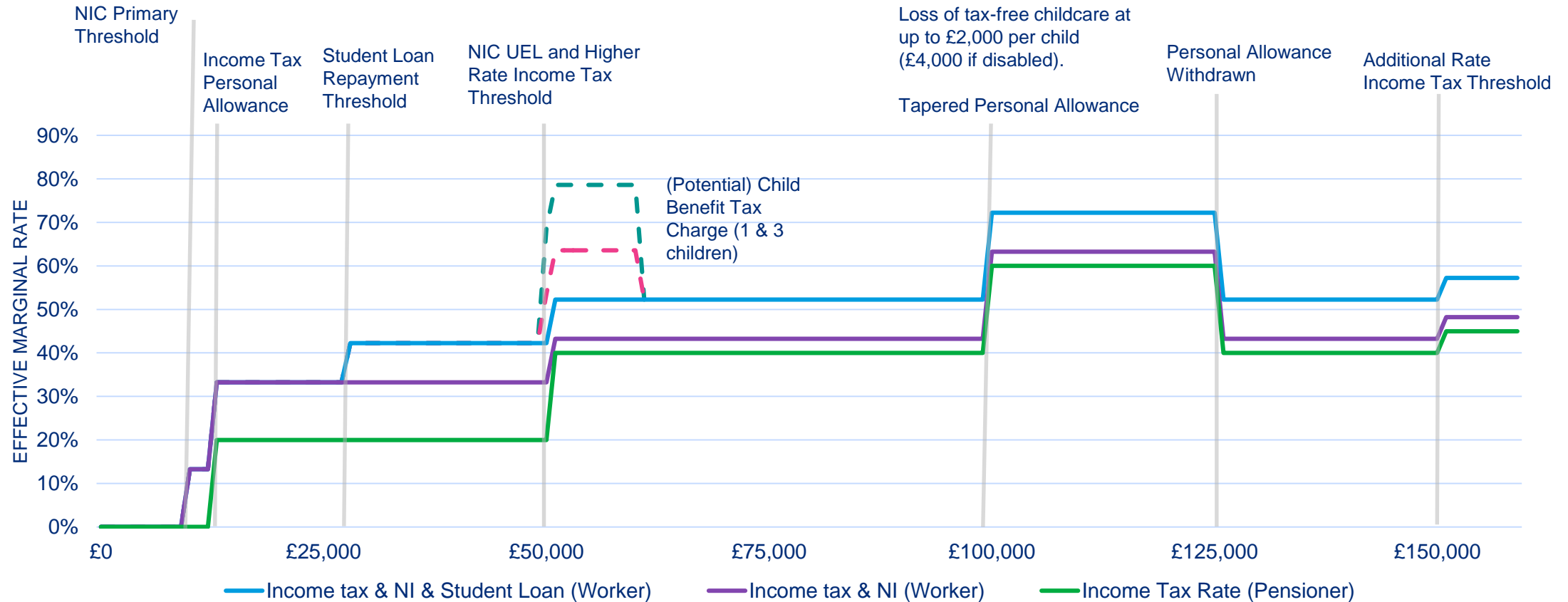
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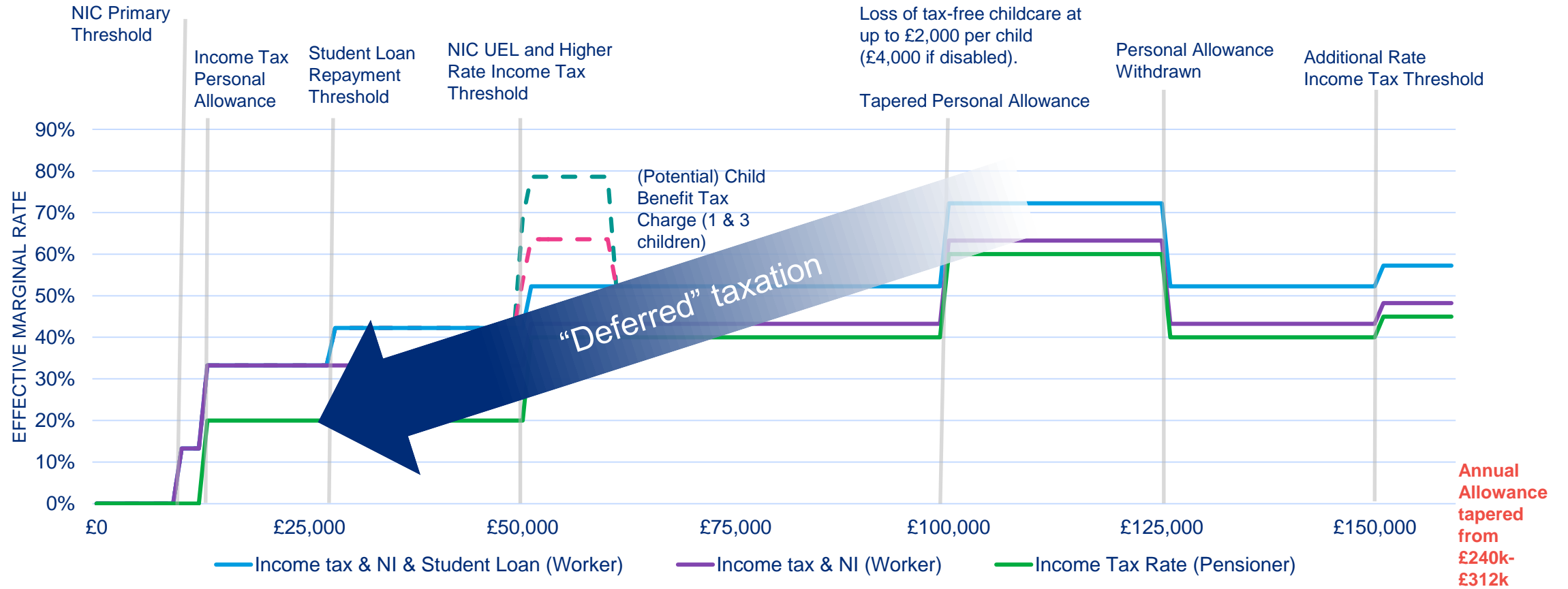
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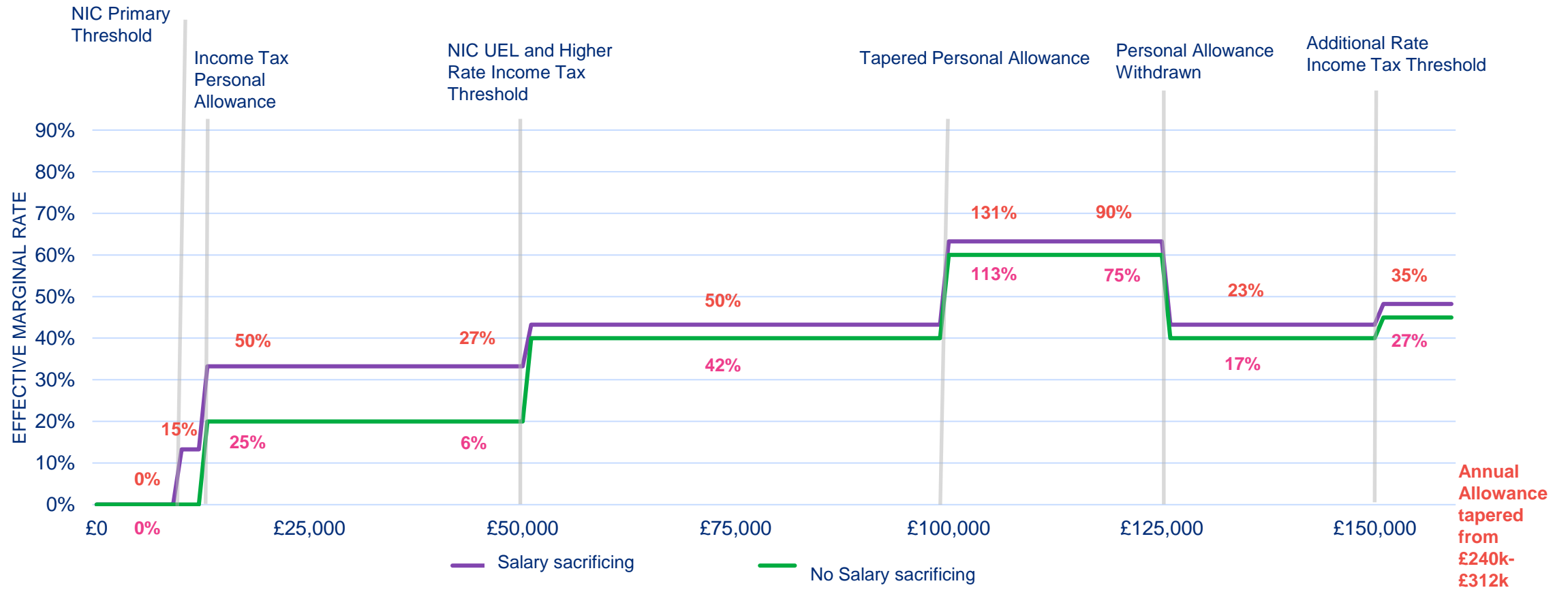
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Incentive examples

- Median pay in UK c. £25,000
 - 20% income tax. 13.25% NICs.
 - £1 employee pension contribution reduces income tax by 20p. Net cost £0.80.
 - Resulting benefit is £0.25 tax-free lump sum and £0.75 taxed at 20%, leaving £0.60 as income.
 - £0.80 given up from take-home to get £0.85 pension.
 - 5p relief.
 - 6¼% return just from tax effects.
-
- £100k-£125k gross earnings in the top 3%, but not the top 2%. Reducing personal allowance.
 - 60% income tax. 3.25% NICs. Assume salary sacrificing and basic rate in retirement.
 - £1 employee pension contribution reduces income tax by 63.25p. Net cost £0.3675.
 - Resulting benefit is £0.25 tax-free lump sum and £0.75 taxed at 20%, leaving £0.60 as income.
 - £0.3675 given up from take-home to get £0.85 pension.
 - 48.25p relief.
 - 131% return just from tax effects.
 - P.S. tax-free childcare!

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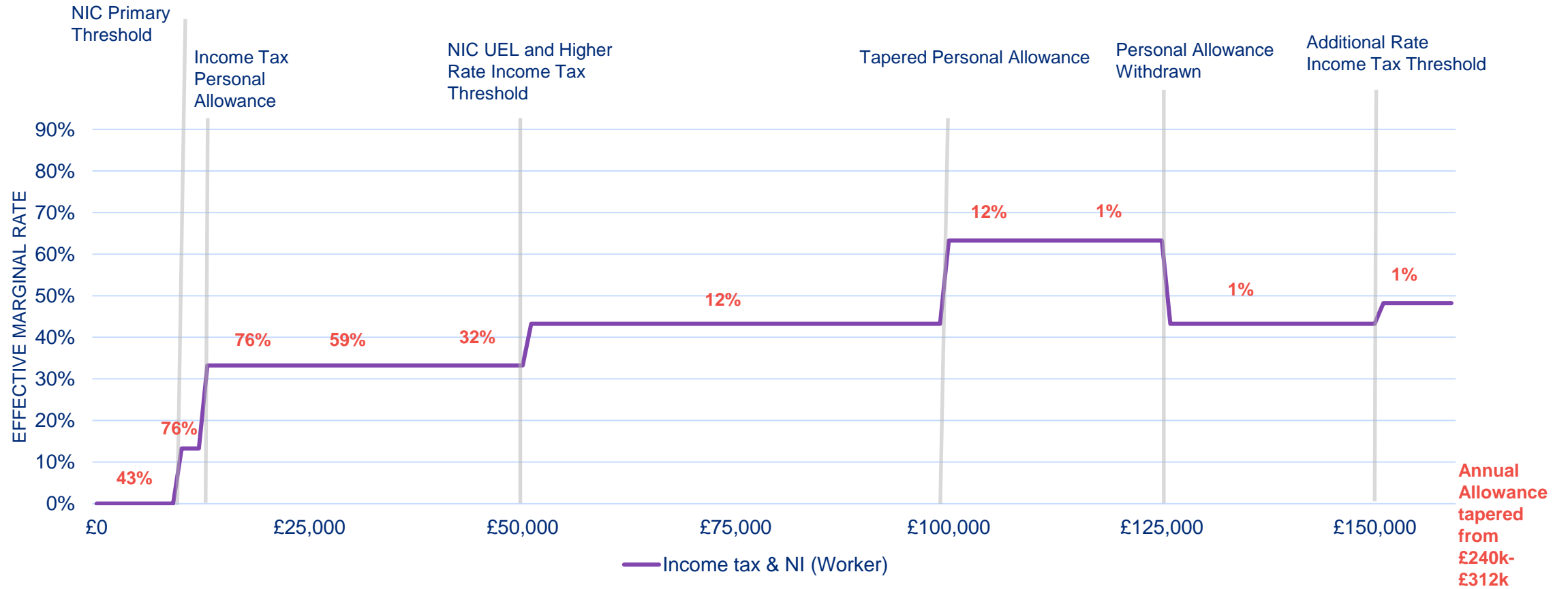
Indicative tax-shifting gains from income tax and NIC relief



Notes: Net pay occupational scheme examples. Most ranges assumes individuals will drop 1 tax brackets or stay in the same bracket. Those grossing just over £100,000 are assumed to drop to basic rate. Lowest paid may be able to obtain better returns through relief-at-source. Interactions with benefits, student loan repayments and other taxes ignored.

How should the tax system treat pension saving?

Straw man for debate – 30% income tax and NI relief upfront, income tax and NI on 75% of proceeds



Notes: Net pay occupational scheme examples. Income tax but not NI assumed to apply on both employee and employer (future service) contributions. Most ranges assumes individuals will drop 1 tax brackets or stay in the same bracket. Those grossing just over £100,000 are assumed to drop to basic rate. Interactions with benefits, student loan repayments and other taxes ignored.

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These slides are intended to aid the CIOT/IFS debate on the current UK tax system. They give an overview of the marginal tax rates of income tax, national insurance and other pay-related deductions by HMRC for people in the UK, and how they interact with the pensions system. They ignore interactions with the benefits system and other taxes. They do not attempt to cover all circumstances. The slides are provided for information purposes only and does not contain regulated investment, actuarial or legal advice in respect of actions you should take. No decisions should be made based on this document without obtaining prior specific, professional advice relating to your own circumstances.

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