

# Hotspot

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What is Rachel Reeves going to do next?



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## What is Rachel going to do next?

The Labour Government manifesto tax pledges are to not increase the three basic taxes of income tax, capital gains tax and VAT. With economists' predictions that recent higher spending on welfare and defence along with reversals of winter fuel payments; scrapping two-child benefit cap; with the reversal of cuts to other benefits, will all lead to an extra £30bn in fiscal tightening. This will lead to tens of billions worth of tax rises in this Autumn's Budget.

We are therefore looking at what other ways of raising taxes the Government may be considering. We delve into the Parliamentary Library website and see what options are being considered.

Click on the [highlighted links](#) within the article to read the backroom thinking.



### Options to reform pensions tax

#### Flat rate pensions tax relief

Pension savers do not pay income tax on contributions to pension schemes, up to set limits. Instead, they receive income tax relief at their marginal rate of income tax – the rate they would have paid if they had not contributed to a pension.

One option for reform is a single rate of tax relief, rather than relief being given at someone's marginal rate of income tax.

Supporters often argue that [it would be faire](#) 5



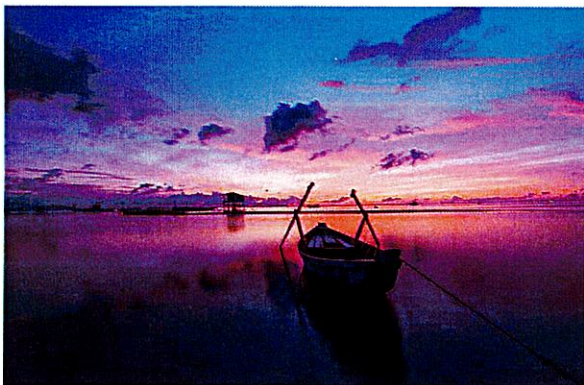
for all taxpayers to receive the same rate of relief.

Others argue that a single rate of tax relief, unless accompanied by further measures, could mean "[double taxation](#)" <sup>6</sup> for higher rate taxpayers. They would pay tax on the difference between their marginal rate of income tax and the flat rate of tax when making contributions, and again pay income tax when those savings are withdrawn as a pension.



### Taxing pension contributions and top up payments

In the UK, private pension saving incurs income tax on an "exempt, exempt, taxed" model (EET) for income tax. Contributions and investment growth are exempt from income tax, but it is paid when savings are used to make pension payments. A different approach which has been considered is a "[taxed, exempt, exempt](#)" <sup>7</sup> model (TEE). In this system pension contributions incur income tax like other earnings, but investment growth and withdrawals would be exempt.



### Tax free lump sums

People can receive up to 25% of their pension as a tax-free lump sum. The standard maximum tax-free lump sum is £268,275. It has been argued that [lowering the maximum amount](#) <sup>8</sup> for example to £100,000, would increase tax revenue without affecting most pension savers.

### Inheriting pensions

If someone dies before their 75<sup>th</sup> birthday most lump sums paid from their pension are tax-free up to a limit. If someone dies after their 75<sup>th</sup> birthday, the person receiving a lump sum pays income tax like they would on other income. There have been [calls to end this difference](#) <sup>9</sup>

Pension pots are currently generally exempt from inheritance tax, and some organisations



had [proposed that this exemption should en](#):<sup>10</sup>

At the Autumn Budget 2024, the government announced that from 6 April 2027 most pension funds and pension death benefits will fall within someone's estate and [will be considered when calculating inheritance ta](#):<sup>11</sup>

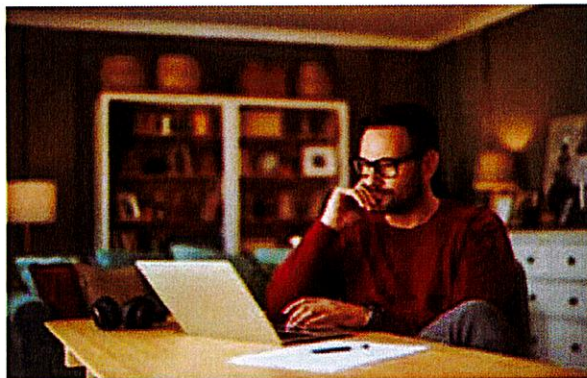


## Employer National Insurance Contributions (NICS)

Employers do not pay NICs on pension contributions, but employees and self-employed people do. Some employers offer [salary sacrifice pension scheme](#):<sup>12</sup> to make tax-efficient use of this difference.

There have been [proposals for employer NICS to apply on their contribution](#):<sup>13</sup> There have also been suggestions that such a proposal could [allow NICs relief on pension contributions made by employee](#):<sup>14</sup>

The Association of British Insurers cautioned that [this could lead to employers making lower pension contribution](#):<sup>15</sup>



## Self-employed

Eligible employees are automatically enrolled into a pension scheme by their employer. Self-employed people are not.

In September 2022, the Work and Pensions Select Committee proposed that [the government consult on changes to National Insurance paid by the self-employed \(Class 4\) to increase the proportion of self-employed people saving into a pension](#):<sup>16</sup>

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Suggestions on a postcard to Rachel at SW1A 0AA.

Best Regards

Ray

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