

The Rt Hon Matt Hancock MP
Department of Health and Social
Care
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Dear Mr Hancock

Pensions Savings Annual Allowance and retention of key NHS employees

I am writing on behalf of the Association of Independent Specialist Medical Accountants (AISMA) and its members. In 2016 and 2017 we wrote to HM Treasury to highlight the significant issues surrounding the recruitment and retention of senior health professionals within the NHS, which are being driven in part by the changes to the taxation of pension savings introduced in the 2015 Summer Budget.

By way of background, AISMA is a network of 75 accountancy practices who provide accountancy and taxation advice to NHS GPs, consultants and other health professionals. The network acts for close to 50% of GP practices in the UK.

What has changed

Our members have been reporting the following:

1. Significant rises in taxation. This is because members of the NHS pension scheme are not able to cap their pensionable earnings. In many cases tax charges exceed the tax relief available on the contributions being paid and marginal tax rates on the highest level of a GP's income can now be close to 100% of income. As a result, some GPs are paying tax on money they are not actually earning.
2. GPs who are not anticipating a significant increase in their tax bills will have serious cashflow problems. This is because the NHS pension scheme rules restrict the scheme paying tax on behalf of individual members, where the tapered rules apply. A reduced (tapered) allowance can apply to anyone with taxable earnings (both NHS and non NHS) above £110000.
3. There is a significant rise in GPs and senior doctors withdrawing from the NHS pension scheme entirely. The short term impact is that the contributions to the scheme reduce whereas the liabilities currently in payment do not.
4. Of most concern for the NHS is that there is also a significant rise in the number of GPs reducing their working commitment to the NHS as a way of reducing

pensionable earnings. While they are not stopping altogether and therefore statistically they remain as NHS employees, we are seeing that the sessions covered are reducing. A good example is GP Out of Hours services where GPs are giving up sessions but continuing to work shifts in the day in their practices.

5. In the majority of cases the NHS pension scheme has failed to meet its obligations to provide Pension Savings Statements and in the case of GPs these remain outstanding for 2016/17. Due to scheme complexities calculations are difficult and have to be done individually. The problem has also been made worse by the failure of Primary Care Support England to provide timely information to NHS Pensions. The NHS pension scheme simply cannot cope. This results in:
 - a) a high risk of inaccurate calculations supplied to individual scheme members and HMRC leading to the risk of the wrong tax being levied
 - b) extreme difficulties in completing accurate tax returns in the absence of data from the NHS pension scheme.

As we reported previously the tax system now directly disincentivises senior health professionals from performing additional work and in many cases they are having to reduce NHS work if they want to remain in the NHS Pension Scheme.

Our members though are reporting a worsening in the retention issue in the current year.

What change is needed now?

AISMA is again asking HM Government to review the pension savings regime with reference to the Annual Allowance and consider urgently reforming the basis of the charge. As a suggestion:

1. As an immediate change, we would ask the Treasury to revise the Scheme Pays rules to allow the NHS pension scheme to pay over the tax on the full Annual Allowance charge including the element arising from the tapered allowance. This would alleviate the immediate cashflow concerns we have around people not being able to pay significantly increased tax. The Scottish pension scheme has already adopted this whereas England has not. **This would result in no loss of tax to the Treasury.**
2. Other changes could take the form of raising the Annual Allowance threshold to a position where it removes the majority of key NHS workers from this charge. This can be justified on the basis that pension growth for higher earners is now effectively capped by the reduced Lifetime Allowance. The Lifetime Allowance rules lead to a tax charge where benefits exceed the maximum allowed. This allowance has reduced over the years and therefore automatically caps tax relief on larger pensions.
3. The Government could consider further changes to the NHS pension scheme to allow senior health professionals to cap their pensionable earnings to give them back control over the pension growth they have in any one year.
4. Allow the measurement of the Annual Allowance to be linked directly to combined employee and employer contributions, rather than on the benefit accrual method that HMRC adopt, on the basis that Public Sector schemes now have to be self-

funding. This would reduce the burden of administration on the NHS pension scheme and allow tax payers to complete tax returns more accurately.

Clearly any change would need to be cost neutral to HM Treasury, but the reduced administration cost would partially, if not entirely, offset the lost taxation.

AISMA believes that there is an immediate requirement to remove the artificial cap on working introduced unintentionally in the 2015 Summer Budget before we see even more senior health professionals reduce their working commitment in the NHS.

We would be happy to meet to discuss this further should you feel this would be beneficial.

Yours sincerely

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cc. Dr David Geddes, NHS England
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