

Jane Ellison MP
Financial Secretary to the Treasury
The Treasury
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Dear Ms Ellison

Pensions Savings Annual Allowance and retention of key NHS employees

The Association of Independent Specialist Medical Accountants (AISMA) is a network of 75 accountancy practices who provide accountancy and taxation advice to NHS GPs, consultants and other health professionals.

I am writing on behalf of the Association and its members 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.

Pensions Savings Annual Allowance

From 2016/17 the Annual Allowance reduces from £40,000 to £10,000 on a tapered basis, with the Lifetime Allowance reducing to £1 million. While this will not impact on the majority of UK taxpayers it does have a potentially significant impact on higher earning GPs, hospital consultants and senior NHS managers.

The NHS Pension Scheme is an all or nothing scheme. All of a member's income is pensionable unless the member opts out of the scheme entirely. The calculation of benefit scheme growth is complex, with members of the scheme receiving benefit growth as a consequence of multiple variations of the scheme. Determining accurate benefit growth therefore requires a significant number of detailed calculations.

In the case of GPs, information cannot be produced accurately by the NHS Pensions Agency until at least 18 months after the tax year end. Consequently, only estimated Tax Returns can be submitted for the years that a GP anticipates breaching the Annual Allowance.

In some cases, members of the NHS Pension Scheme are reporting that they still have not received accurate calculations from the NHS Pensions Agency for the 2011/12 tax year.

Senior health professionals therefore have very little control over their pension growth and the calculations make it increasingly difficult for them to plan for potential tax liabilities arising from the excess pension growth.

This is contrary to one of the fundamental requirements of our tax system which is that taxation should be transparent and enable taxpayers to comply with their legal responsibility to file accurate Tax Returns.

The problem and its impact on the workforce

The tapering impact of the pensions Annual Allowance has resulted in a situation where, for some GPs, any incremental income they earn results in combined taxation, National Insurance and pension contributions of more than 100% of earnings. Working therefore results in them taking home less pay creating a disincentive to work.

As a result AISMA members frequently encounter GPs who have decided to reduce their work commitments at a time when the NHS is already suffering from a recruitment and retention crisis due to other factors.

This is backed up by evidence reported by the medical press. For example, on 1 September 2016, Pulse magazine reported that in Doncaster there are now occasions when no GPs are available to cover the whole population during evenings or at weekends. Taxation was one of the reasons given to explain why GPs are not working extra evening or weekend sessions.

AISMA members have also reported significant inaccuracies in the calculations produced by the NHS Pensions Agency. This is understandable though, given the complexities involved.

Consequently, we now have a system that:

- Is a real barrier to experienced people working additional hours in the NHS and is causing senior health professionals to reduce their NHS commitment at a time when it is most needed
- Is very expensive to run with the NHS Pension Scheme bearing much of the cost of calculating pension growth bringing into question the net gain to the country of the Annual Allowance tax charge
- Implements a tax charge which is against the core aim of taxation being transparent and understandable.

Lifetime Allowance, Public Pension Scheme reforms, and the interaction with the Annual Allowance

The reduction of the Lifetime Allowance to £1 million has already had the impact of limiting pension pots to allow a pension income which is within the basic rate tax band. As such, excessive pension growth has been curbed.

In addition, Public Pension Schemes have been reformed so that they are intended to self-fund in the future. This means that pension growth as measured by contributions can now, on average for a scheme, be seen to be a sensible barometer against which to measure the

Annual Allowance, as over time they should accurately reflect the cost of providing the benefit.

What change is needed now?

It is not the role of a body such as AISMA to comment on the fairness or appropriateness of taxation policy. However, where our members are seeing at first-hand the results of a tax system that disincentivises senior health professionals from performing additional work, or even reducing work commitments to minimise the tax impact of the changes introduced, we are obliged to bring this to the attention of the government.

AISMA is asking The Treasury 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. This could take the form of raising the 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.
2. 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.
3. Allow the measurement of the Annual Allowance to be linked directly to combined employee and employer contributions, rather than on benefit accrual, on the basis that Public Sector schemes now have to be self-funding.

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 last year's 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

Andrew Pow
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Director, Hall Liddy Chartered Accountants