PRESS RELEASE

Revision of tax rules would encourage employers to repair pension fund deficits – SPC

Employers would be more willing to repair deficits in pension funds, if the tax relief on large 'catch up' payments was made available more quickly.

That's according to the Society of Pension Consultants, which recently held a high-level Roundtable meeting to discuss current concerns on pensions.

As a result the SPC is firmly convinced that relaxing the Inland Revenue's rules on tax relief on such large contributions would leave the occupational pensions sector in a far healthier state. It hopes the IR's Pension Industry Working Group, set up to prepare for the new pension taxation regime beginning in April 2006, will take this into account.

"We believe this would be the right time to urgently re-examine policy in this area," says SPC Secretary John Mortimer in a letter to HM Revenue & Customs.

"On the basis of the discussion at our Roundtable the requirement to spread the tax relief can on occasions be a significant disincentive to making the deficit reduction contribution at all.

“This is not the first time that Revenue, has been asked for a reconsideration of the rules, so that tax relief on special contributions to reduce deficits does not have to be spread, but the rules have remained unchanged.

“It is surprising that the tax relief spreading rules make no exception for large contributions paid with a view to reducing these deficits. As far as we can see these contributions will be treated in exactly the same way for spreading purposes as any other large contributions."

The SPC accepts that smaller schemes might pose difficulties for Revenue. Mr. Mortimer explains: "One of the key problems can be where the active membership of a scheme is small, so the deficit, and hence deficit repair contributions, can appear large, and so fall to be spread in the first place."

However the SPC sees no justification for spreading tax relief if liabilities are largely to provide 'current' funds to pay pensioners.

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Editor's notes:

SPC is the representative body for the providers of the advice and services needed to establish and operate occupational and personal pension schemes and related benefits. Its Members include accounting firms, solicitors, life offices, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPC is the only body to focus on the whole range of pension related functions across the whole range of non-State provision, through such a wide spread of providers of the advice and services.

The vast majority of the 500 largest pension funds use the services of one or more of its Members. Many thousands of smaller funds and individuals also do so. SPC's growing membership collectively employs some 14,000 staff providing pension related advice and services.