Finance (No.2) Bill 2021-22
Clause 10, Increase of normal minimum pension age
Representation from the Low Incomes Tax Reform Group (LITRG)

1 Comments on the proposed change

1.1 The normal minimum pension age is the earliest point at which most people can access their pensions without incurring an unauthorised payment tax charge. It is currently set at age 55 and this legislation will increase it to 57 with effect from 6 April 2028. There are exceptions for those who have a protected pension age, work in certain professions (such as sportspeople) or who take their pension due to serious ill-health.

1.2 The increase in the normal minimum pension age will be a single step-change. That is, someone who reaches age 55 on 5 April 2028 would be able to withdraw pension funds on that day. However, if they take no action, from 6 April 2028 they would have to wait almost two years before they could do so – i.e. until they reach age 57 on 5 April 2030.

1.3 It might have been considered fairer for taxpayers in this situation if the change were instead made gradually over a two-year period. However, we appreciate that such a gradual change might be difficult and costly for pension providers to administer and more complicated to communicate to the public than a single step-change.

1.4 We also appreciate that confirming this change now gives people time to plan ahead for the change. To plan properly, however, people will need to know exactly what is going to happen and when. It is essential that government and pension providers produce clear guidance about the changes and that both are proactive in alerting pension savers to the change.

1.5 Our main concern with the Finance Bill proposal is therefore not with the legislation itself, but with the transitional arrangements for the change. The explanatory notes to the clause, at para 28, say:

> "28. There may be some transitional issues. For example, an individual who does not have a protected pension age and at 5 April 2028 will have reached age 55 and has started but not completed the process of taking pension savings before the change in normal minimum pension age. The government will provide further advice on the proposed transitional arrangements and provisions in due course."

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1.6 We are concerned that there is no indication of when 'in due course' might be.

1.7 When the normal minimum pension age increased from 50 to 55 with effect from 6 April 2010, HMRC published a frequently asked questions document on 11 January 2010.[1] Similar communications will be required once the rules are confirmed for the increase to age 57, but well in advance of 6 April 2028 – not just in the final few months before it happens. Waiting until January 2028, if the 2010 example is followed, would be far too late for people to plan.

1.8 It is vital that people have the full detail of any transitional provisions well before the increase to age 57 comes into effect. Otherwise, we are concerned that people reaching age 55 in the run up to 6 April 2028 will take ill-advised actions. For example, they might cash in a pension in full and put the money in the bank so that they crystallise access to the funds. This may well leave them worse off in the long term – having likely incurred an unnecessarily large tax liability on the encashment, and potentially affecting means-tested benefit entitlement (for example, bringing the funds within the capital assessment once they are removed from the protected status of the pension framework). They might also have triggered the money purchase annual allowance[2] and therefore have restricted (perhaps unwittingly) their ability to make further contributions.

1.9 We would therefore welcome the government giving a commitment, during the passage of the present Finance Bill, to confirm the full detail of the transitional arrangements before the end of this Parliament, which we understand would be by 2 May 2024 under current legislation.[3] This would then allow time for guidance to be prepared and for those potentially affected to plan their affairs accordingly.

2 About Us

2.1 The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.

2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often

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[1] See https://webarchive.nationalarchives.gov.uk/20100202120858/http://www.hmrc.gov.uk/pensionschemes/min-pen-age.pdf

[2] The money purchase annual allowance comes into effect when certain benefits are taken from defined contribution pension savings. Essentially, it restricts future contributions to £4,000 a year.

[3] We note that the Dissolution and Calling of Parliament Bill (https://bills.parliament.uk/bills/2859) includes provision for repeal of the Fixed Term Parliaments Act 2011, under which a General Election would have been expected on 2 May 2024.

the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.

2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

LITRG
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