
BMA Briefing – The impact of punitive pensions taxation on the NHS

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About the BMA

The BMA is a professional association and trade union representing and negotiating on behalf of all doctors and medical students in the UK. It is a leading voice advocating for outstanding health care and a healthy population. It is an association providing members with excellent individual services and support throughout their lives.

Summary

- The Annual Allowance (AA) taper continues to create a tax cliff edge that can result in extremely punitive tax charges. In some cases, an additional £1 of taxable earnings can result in additional AA tax charges of £22,500 typically with no additional pension benefit.
- The punitive nature of the taper is causing thousands of senior doctors to reduce their working hours or decline to take on additional work and discouraging doctors who have previously retired to return to NHS work, as they seek to avoid disproportionately high tax bills far exceeding the threshold income.
- Following a survey in 2024, that found that that the tapered AA would prevent or limit the ability to take on additional overtime for 71% of doctors, we warned that ignoring this issue would seriously damage attempts to meet the Government's target of reducing NHS waiting lists. Unfortunately, no action was taken to address this in the Autumn Budget.
- A snap survey in February 2025 with over 5000 respondents has demonstrated that these warnings have come to fruition with very large numbers of senior doctors having reduced their regular hours. Extrapolated across the workforce, the results represent potential losses this year equivalent to around 5,400 consultants and 4.0 million GP partner appointments in England alone.
- The BMA recommends that the AA taper is scrapped to maximise the work doctors can do, particularly at a time when patient demand is outstripping the number of doctors available to treat them.

Background and current issues impacting NHS recruitment and retention

The AA is a threshold which restricts the amount of tax-free pension growth allowed each year. When this threshold is breached, a tax charge on the amount of pension growth exceeding the threshold is payable at one's marginal rate of income tax (e.g. 45% for additional rate taxpayers in England). The standard AA is currently £60,000 but since 2016 some individuals have instead been subject to a lower tapered AA. The taper only applies currently when both threshold income (taxable income) exceeds £200,000 and adjusted income (taxable income plus pension growth) exceeds £260,000. With both conditions met, for every £2 that adjusted income exceeds £260,000, an individual loses £1 of their AA until a minimum is reached. The minimum reduced (or fully tapered) AA is currently £10,000.

Pensions are often viewed by NHS staff as a cornerstone of their remuneration package. However, far from being a positive recruitment and retention tool, successive changes to pension taxation left doctors facing disproportionate and at times punitive tax charges, leaving them little option but to reduce their hours or retire early. Following BMA lobbying and close working with Government, significant improvements to the pension taxation landscape were made. Firstly, due to major problems with the AA taper, an AA compensation scheme was introduced for clinicians in the NHS in 2019/20 and the thresholds at which it applied were increased by £90,000 (threshold income

increased from £110,000 to £200,000) in 2020. This significantly improved AA issues but did not resolve them completely. Doctors were continuing to retire early due to the Lifetime Allowance (LTA) and in the Spring 2023 budget, the Government agreed to abolish the LTA and increase the standard AA. However, they did not increase the level of the threshold income (the point at which the cliff edge starts), which has remained frozen at £200,000 since 2020. Consequently, the design of this taper results in a significant cliff edge. In 2024/25, crossing the tapered AA “threshold income” even by £1 can result in additional tax charges of up to £22,500. Doctors who exceed this threshold income usually do so due to additional non-pensionable work, such as Waiting List Initiative (WLI) or regular overtime.

This additional tax charge is not related to any additional pensionable benefit. Indeed, if scheme pays is used to pay this tax charge, the amount of pension will fall because of taking on this extra work. Scheme pays allows a member to elect for the pension scheme to pay the member’s tax charge in exchange for a reduction in their benefits. Consequently, if doctors exceed this earnings threshold, they will be faced with the option of either paying this tax charge from their post-tax pay or permanently reducing the value of pension they will receive in retirement and the amount of additional tax will typically be higher than any income gained from the work itself. They are effectively paying to work. The best way to avoid this is by reducing hours or refusing to take on additional work in order to keep taxable pay below the threshold.

In a snap survey on pension taxation in June 2024, more than 71% of all respondents indicated that if there were no further reforms to the tapered AA following the election, this would prevent or limit their ability to take on additional overtime. Amongst consultant respondents, this proportion rose to 77%. Unfortunately, despite these warnings, no further reforms to the tapered AA were announced at the Autumn 2024 Budget. Therefore, in February 2025, the BMA conducted a snap survey to determine what changes senior doctors had made to their working patterns. Over 5000 members responded, and the results were stark. As results below do not account for additional work that consultants and GP partners have declined to do, lost capacity may be even greater.

Consultants

- 21% of consultant respondents have reduced their “regular overtime” this year due to the tapered AA, with reductions averaging 1.4 sessions (or programmed activities, PA’s) a week. Additionally, 16% consultant respondents have gone part time this year due to the tapered AA, with reductions averaging 1.9 sessions (or PA’s). A full-time consultant works 10 sessions per week. Combined, these regular hours reductions represent potential lost capacity equivalent to around 3,500 consultants in England this year alone.
- 24% of consultant respondents have reduced their “ad hoc” overtime/WLI sessions due to the tapered AA, with reductions averaging 5.1 hours a week. This implies a potential loss of around 3.2 million hours of WLI work that would have been offered to the NHS in England this year alone, equivalent to around 1,900 full time equivalent consultants’ worth of work.
- These results suggest that combined there has already been a potential loss of capacity of around 5,400 consultants’ worth of activity – i.e. 9.3% of the total consultant workforce in England this year alone.

General Practice

- 23% of GP partner respondents have reduced their regular workload this year due to the tapered AA, with reductions averaging 1.7 sessions per week. This implies a potential loss of around 4.0 million appointments in England this year alone.
- 21% of GP partner respondents have reduced their other remunerated work (e.g. out-of-hours work), 18% have reduced their additional cover sessions (i.e. for holiday and sickness cover), and 16% have reduced additional funded service provision at their practice this year due to the tapered AA.

Other challenges

A key issue with the operation of the AA in defined benefit schemes such as the NHS is its complexity and the fact that pension scheme members will not know whether they face a tax charge or are indeed subject to the taper until after the tax year has ended. This was reflected in our survey with 45% of all respondents saying that they did not know whether they would be liable for an AA charge this financial year and 27% stating they didn't know whether they would be subject to tapering of their AA. Respondents were also clear that if the Government failed to act the problem will persist next year. 68% of all respondents reported that the tapered AA will limit or entirely preclude their ability to take on additional overtime in 2025/26 if nothing changes. This figure rose to 73% for NHS consultants.

Retire and return consultants

One of the aims of the Government abolishing the LTA and allowing pensionable re-employment was to encourage senior doctors who have retired to return to NHS practice. However, their pension income will be combined with any NHS earnings when it is assessed against the threshold income. For many senior doctors this will leave them perilously close to or even above the “threshold income” limit. This may result in a serious disincentive to return to the NHS.

Solutions

The BMA believes that in order to maximise the amount of work doctors can do, the taper must be abolished. This will potentially provide a very significant boost to NHS capacity and would undoubtedly help deliver the Government’s pledge to reduce NHS waiting lists and increase the number of appointments. Abolishing the taper will still ensure that there is a limit on tax relief as the standard AA will continue to apply. In addition, it is highly likely that the net cost of such a change will be minimal as in practice people limit their earnings to stay below the tax cliff edge.

If the Government is concerned about the impacts of abolishing the taper in the private sector, an alternative would be to reintroduce the AA compensation scheme that operated in 2019/20. Such a scheme should be made available to all doctors working in the NHS, including those who may be a member of an alternative public sector scheme (e.g. Armed Forces, University) and should be available in all four nations.

While the standard AA remains in place for DB schemes, we also believe it is crucial that it is indexed in line with inflation. The standard AA has remained £60,000 since April 2023. Had it been increased in line with previous September CPI inflation since 2023/24, the inflation statistic used to increase NHS and other public sector pension benefits, the AA would have grown to £64,020 in April 2024 and rise to £65,108 in April 2025. We ask that, whilst doctors remain subject to the AA, Government commits to indexing the AA to inflation, as otherwise the problems we saw prior to the increases in 2023 will return.