Pensions tax relief administration: CIOT response

Employment Tax

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The CIOT and LITRG support the proposal to level-up net-pay and relief at source pension schemes through HMRC paying a bonus equal to the basic rate of tax on their contributions to lower earning individuals in net-pay schemes.

The CIOT and LITRG have both responded to the call for evidence on pensions tax relief administration published by HM Treasury in July 2020. The call for evidence concerns the potential for a low-earning individual's take-home pay to be affected by the method of pensions tax relief operated by their pension scheme provider. This issue is explained in more detail by LITRG's Kelly Sizer in September's Tax Adviser).

While for the vast majority of pension savers net-pay and relief at source (RAS) schemes deliver the same outcomes (albeit via different methods), the differences between the two arrangements mean that there is an inconsistency in outcomes for some low-income individuals. This results in those in net-pay arrangements either receiving less take home pay for the same level of pension contribution or having to cut their pension savings to receive the same take home pay as an individual in a RAS scheme.

Hence, the issue is essentially whether the government should: (a) level-up low-income individuals in net-pay schemes with their equivalent in RAS schemes; (b) eliminate that difference by levelling-down RAS scheme members to their net-pay scheme equivalents; or (c) do nothing.

LITRG's response to the call for evidence can be summarised as:

- Action **must** be taken to ensure that all low-income workers get a government contribution to their pension, as was promised under auto-enrolment. The gap

between those in net-pay arrangements and RAS schemes will only grow as auto-enrolment is extended to 18-year-olds and the lower earnings limit is removed.
- Failure to take action could damage confidence in pensions and auto-enrolment.
- The social injustice in the current situation – with nearly three-quarters of those affected being women – must be rectified.

The CIOT agreed and supports LITRG's (and the Net Pay Action Group's) proposal that HMRC pay a bonus equal to the basic rate of tax on their contributions to lower earning individuals in net-pay schemes using real time information data and an end of year PAYE reconciliation and claim process, as being the best of the four proposed solutions. We believe that this option can be delivered by HMRC without undue complexity and excessive time lags, albeit it comes at a cost.

We also suggested that the temporary measures introduced to allow claims by pension administrators to be submitted electronically during the pandemic should become the new standard; and that a 'digital first' approach is adopted for communications between pension administrators and HMRC.

The full CIOT response is available to read here.

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