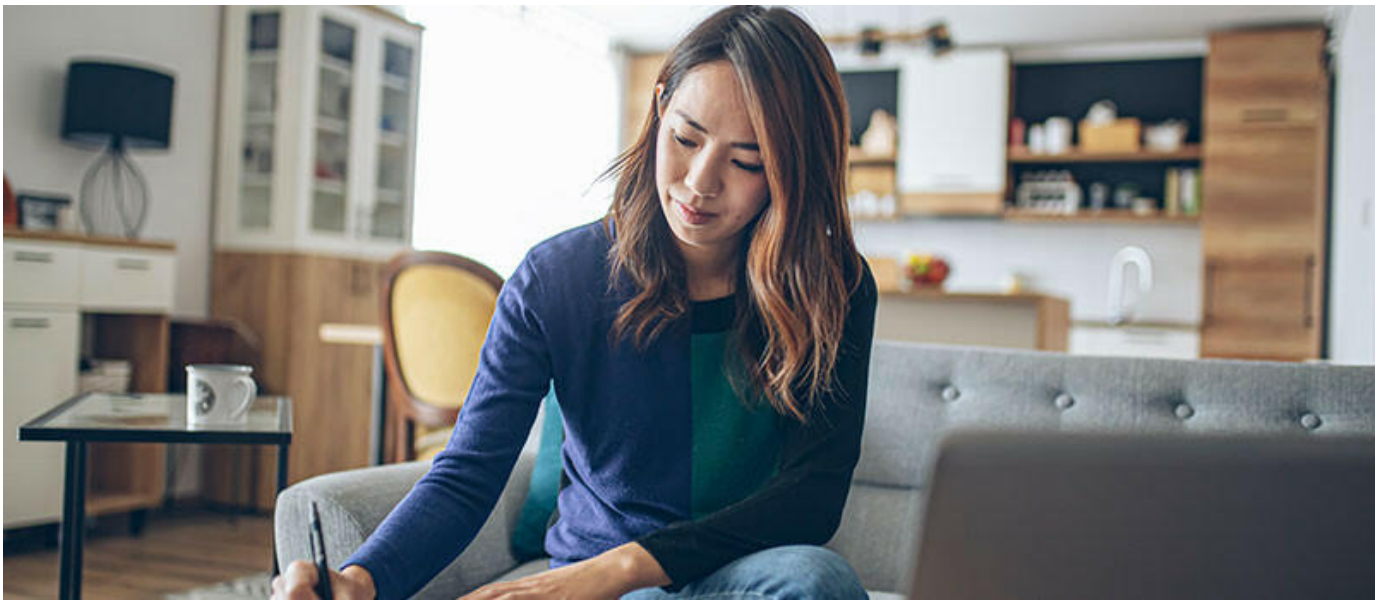
How to deal with pension tax relief errors: an update

Employment Tax | Personal tax



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In July 2021, we posted an article about pensions tax relief entitled ‘Net payment arrangements v relief at source payroll mistakes: how common are they?’ (tinyurl.com/574fcrer). We received a number of responses, indicating that these errors are indeed quite common.

The apparent ‘misnaming’ of the two types of relief do not help employers to get things right: a ‘net pay arrangement’ (NPA) sees contributions being deducted from *gross* income; and a ‘relief at source’ (RAS) arrangement sees tax relief reclaimed by the pension provider, *not* in fact at the source of the contribution – that is the employer!

Since writing our original article, we noticed that in 2018, HMRC and The Pensions Regulator placed a joint article in the Pensions schemes newsletter (no 105) (tinyurl.com/yvbbwxfv). This article acknowledged the problem, provided a link to guidance on tax relief in the Pensions Tax manual, and provided an email address

through which pension scheme providers could report and correct issues.

There was, however, no obvious guidance directed at employers who have uncovered a problem with pensions tax relief given via their payroll.

Some guidance has now been published in HMRC's August 2023 Employer Bulletin (tinyurl.com/f4ju43t8), with some examples of common mistakes. This new guidance says that errors should be corrected immediately in terms of future payroll, and that past mistakes should be reported via HMRC's digital disclosure facility.

We are pleased to see HMRC finally publishing some information. However, in order to properly identify the nature and extent of any errors and to set things straight, it may still be necessary for employers to take the following steps:

1. Check what type of tax relief their pension is set up to operate and whether this matches what is being done for payroll purposes.

2. Try to identify if the errors are NPA to RAS (where tax relief is given twice) or RAS to NPA (where tax relief is not given at all).

3. Contact their pension scheme provider and explain the problem so that they can confirm the nature and scale of the issue. There may not be an issue, for instance, if the employer is confused about the type of scheme they have. Equally, the issue may be larger or smaller than first thought, depending on whether the employer is using qualifying earnings or total earnings, for instance, or paying more than the minimum percentage required.

The required action can then be taken by the pension scheme and/or the employer.

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