LITRG urges HMRC to understand scale of pension tax relief errors

Briefings

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New top-up payments make getting on top of tax relief errors more urgent.

CIOT's Low Incomes Tax Reform Group (LITRG) is calling on HMRC to establish the true scale of pension tax relief errors made by employers, amid concerns that leaving this issue unresolved could undermine a new pension tax relief top-up payment scheme designed to benefit low-income workers.

In a new paper, 'Workplace Pensions – a hidden problem', LITRG highlights that more needs to be done by HMRC to uncover the true scale of errors made by employers when applying tax relief to workplace pension contributions.

LITRG says that understanding the scale of the issue has been made more urgent by the introduction of an automatic pensions top-up payment for some low-income earners, an issue LITRG has been at the forefront of campaigning for. This scheme is intended to address the longstanding ‘net pay anomaly’, under which some lower-income pension savers missed out on pension tax relief.

LITRG’s paper explains that confusion and misunderstanding among some employers over the different types of pension tax relief means that some employees end up receiving more or less tax relief on their contributions than they are entitled to. The former scenario also leaves employers at risk of compliance action and penalties from HMRC for failing to apply the correct rules.

LITRG is asking HMRC to:

- make it easier for employers to correct historic PAYE errors and ensure that disclosures also correct or flag underlying RTI pension scheme data;
- work with stakeholders to confirm clear processes for correcting administrative errors and ensure pension providers treat excess contribution refunds consistently;
- use its own RTI and pension scheme data to produce an estimate of how widespread pension tax relief errors are; and
- review the quality of the data it holds in its systems, cleansing it where necessary.

‘We are concerned that firstly, some employers are giving pension tax relief incorrectly to their employees, but also that there is little published evidence that the potential scale of the issue has been understood or acknowledged by HMRC,’ said Meredith McCammond, LITRG Technical Officer and author of the paper.

‘’HMRC need to take urgent steps to make sure that the underlying data in their systems is accurate,’ she continued. ‘If HMRC records show incorrectly what type of pension arrangement someone belongs to, that could affect the operation of the new top-up payment regime, undermining policy intent and public confidence.’

LITRG wants more to be done to ensure that employers understand pension tax relief, which rules they should be applying and how they can correct errors. ‘This will help employers to stay compliant and also support the long-term success of auto-enrolment,’ explained Meredith.