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## Pensions tax relief administration: call for evidence

HM Treasury





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Moving pensions forward

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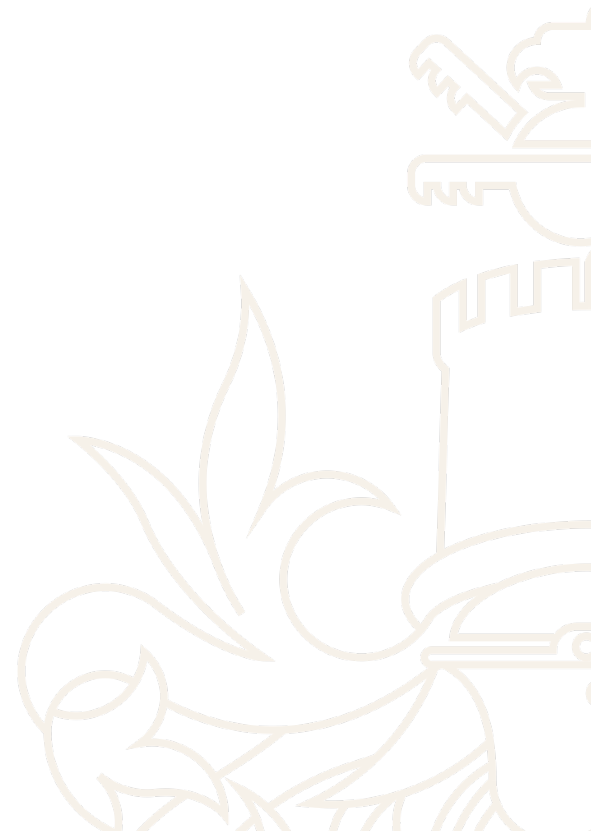
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# **Response from the Pensions Management Institute to HM Treasury's Call for Evidence: 'Pensions Tax Relief Administration'**

## **Introduction**

PMI is the professional body which supports and develops those who work in the pensions industry. PMI offers a range of qualifications designed to meet the requirements of those who manage workplace pension schemes or who provide professional services to them. Our members (currently some 6,000) include pensions managers, lawyers, actuaries, consultants, administrators and others. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response. Due to the wide range of professional disciplines represented, our members represent a cross-section of the pensions industry as a whole.

PMI is focused on supporting its members to enable them to perform their jobs to the highest professional standards, and thereby benefit members of retirement benefit arrangements for which they are responsible.



**1. What are the factors that influence a pension scheme in its choice between using net pay or RAS for their members?**

Traditionally occupational schemes have used net pay, whereas group schemes have used relief at source. There are some exceptions to this, most notably NEST using Relief at Source. This is in part historical, but was also driven by the tax rules in place at the time.

Multi employer schemes and providers will offer what their customers demand, balancing out various areas of the proposition including charges, investments, governance, and communications.

**2. How do pensions providers currently engage with employers around the differences between net pay and RAS for their employees? Is the method of tax relief a scheme operates a relevant factor in the employer's decision (either directly, e.g. when considering employees' financial positions, or indirectly, e.g. through an impact on provider fees)?**

For some (a small minority of) employers, the operation of tax relief will be a factor in choice of scheme or provider, but this will be considered among many other features of the scheme and would be far from being the main determining factor. It will certainly be a consideration for those employers that use an adviser to help them choose a scheme, but other factors such as charges, investment, governance and communications are likely to be more important considerations in choice of scheme.

Smaller and medium sized employers, particularly those that don't use an adviser, will just see auto enrolment as a compliance exercise associated with employing someone. To this end they will just look for a scheme that gets them compliant and makes life as easy as possible for them administratively.

**3. Are there ways that this approach [paying a bonus using RTI data] could be delivered that would not engage the issues identified above, namely the challenges in ensuring consistency across all taxpayers for all aspects of the tax system in a timely fashion, and additional burdens for scheme members and scheme administrators?**

We support the P800 solution developed by the net pay action group as the simplest and least burdensome approach to tackling the anomaly, and believe all of the hurdles presented in the call for evidence are surmountable.

We set out our response to some of the issues raised in the call for evidence below:

***‘Net pay scheme administrators would have to report their membership to HMRC so that potential bonus recipients can be identified’, and ‘It creates disproportionate burdens on... pension scheme administrators’***

Net pay schemes are exclusively linked to employment relationship and employers give HMRC details of net pay pension contributions via PAYE real-time information (RTI). There is therefore no need for HMRC to collect the same data from schemes. Hence, there would be no extra burden on scheme administrators.

***‘Members of net pay schemes would have to have their personal allowance reduced’***

We do not see why this would have to be the case. Non taxpayer personal pension contributors don't have their personal allowance reduced.

***‘A claim is necessary’***

It isn't. The P800 system reconciles an individual's tax and automatically sends the individual concerned a calculation of the amount where a refund is due. If people don't go online and ask for a refund then HMRC send them a cheque. So no claim is actually required.

***‘There will be a... significant time lag between contribution and bonus’***

This is a feature of the tax system generally, and is not a good reason not to solve the issue at hand.

***‘There will be complex issues, for example how it interacts with the... tax and benefits systems’***

This is already a problem within our tax and benefits system and the interaction between HMRC and DWP. It is not a reason to not deal with the net pay anomaly.

**4. We would welcome views on whether equalising outcomes by removing the top-up for non-taxpayers would represent a fair solution to this issue? If possible, it would be useful to understand the impacts on schemes and providers from any such change.**

While such a solution might be seen as ‘fair’ in terms of equalising treatment among low earners, it fails a wider fairness test of supporting those on lower incomes in saving for their retirements. Government messaging around auto enrolment focussed on the contribution from the employer, employee and the state (through tax relief), no ifs and no buts. Removing tax relief from this group would break that promise, damage pension saving for this group and would undermine the progress that has been made to date with getting people to save for their future through auto enrolment.

**5. We would welcome views on whether this approach [employers operating multiple schemes] would:**

- **reliably mitigate the potential difference in outcome for low earners on a consistent basis**
- **be a deliverable, affordable and proportionate solution for small employers with a high proportion of low-earning employees**
- **be appropriate for low earners who are members of defined benefit pension schemes**

While this could be seen as a useful easement for larger employers and those that have support and engage an adviser/EBC, it would unfairly increase the burden on smaller employers who lack the understanding and capability, and don't have access to (or can't afford) support. For those saving in smaller employers it probably wouldn't make much difference.

It also adds complexity to auto enrolment and increases burdens on smaller businesses at a time when they are struggling just to keep things ticking over as a result of the current pandemic.

**6. What would be the impacts on schemes and providers of requiring all DC schemes to use RAS? Would this represent a proportionate decision, given potential benefits to some employees and employers?**

While this would benefit some employers and employees it would cause huge upheaval and associated cost and would not be a proportionate response to the issue at hand, particularly given the alternative workable solution that has been proposed by the net pay action group. Moving all DC schemes to RAS also creates another problem - that of higher rate taxpayers having to claim additional tax relief, causing increased burden on those individuals and on HMRC.



**7. Would requiring all new providers of DC pensions to operate RAS represent a fair solution to this issue? The government would welcome views on the longer-term implications of such a requirement, for example whether this would result in existing schemes re-evaluating their arrangements.**

We don't think that this approach would make much (if any) difference, particularly now auto enrolment has been rolled out. It could have made a significant difference if this was a requirement from the start of auto enrolment, but any solution needs to do with currently affected employees, not just those who may happen to be saving in new schemes.

**8. Views on whether there would be any benefit in extending RAS to all DB schemes as well as DC schemes would be welcomed. Alternatively, the government is interested to collect evidence on challenges that prohibit such an approach.**

We strongly oppose this suggestion. It would cause enormous upheaval to existing schemes at a time when resources and money are already under severe strain. We believe it would truly be the “final straw” for sponsoring employers and rapidly accelerate the cessation of the remaining DB schemes in the UK (notwithstanding that many of the DB schemes that are still open are in the public sector). The Government has been clear that it is seeking consolidation of pension schemes but this would be the wrong trigger to force this.

**9. What changes could be made to the current methods of pensions tax relief that would ensure consistency in outcomes for taxpayers across all aspects of the tax system? If possible, please provide evidence as to how these could be delivered in a proportionate manner by all relevant stakeholders.**

We have no further comments on this question.

**10. Alternatively, is there a balance to be struck in ensuring consistency in outcomes as far as possible, but prioritising simplicity for individuals? Is there evidence that would support this approach as more likely to build trust and engagement with the pensions system?**

We agree that a balance needs to be struck between consistency and simplicity. We appreciate that this is very difficult to reconcile but note that anecdotal experience across all pension issues simplicity leads to greater member engagement whereas complexity leads to disengagement.

**11. The government would welcome any evidence on whether the RAS system of pensions tax relief administration creates significant additional burdens as compared to net pay, as well as setting out what those burdens are, suggestions for any changes that could be made to ease such issues. In particular, the government would welcome thoughts on the following themes:**

- **whether the current system of declarations causes difficulty in claiming tax relief**
- **any suggestions for practical ways that the earnings limit could be confirmed that would benefit the individual pension scheme member, and**
- **potential operational changes needed to support a requirement for interim claims to provide relevant details of individual members**

The fact that the RAS system does not automatically provide marginal rate tax relief for higher rate taxpayers and instead requires them to make an explicit claim for it clearly creates an additional burden for both individuals and HMRC compared to net pay. Media reports at the start of 2020 suggested that up to £830m of tax relief from the RAS system goes unclaimed. We believe that many individuals in such a position do not claim their additional relief either through inertia or through ignorance.

**12. The government would welcome views on whether there are operational changes that could be made to improve the operation of the RAS system and improve member outcomes. Is there evidence that current processes can help to support some employers or pension schemes; or does the paper-based nature of the RAS system create any obstacles in the process for claiming tax relief?**

As mentioned above, the need for making an explicit claim for additional tax relief under RAS is an obstacle in the process. The more functionality that is offered on line the easier it would be to make the change. Any change is not going to work unless there is a fundamental change to the current system. Any major change to the net pay system will see a serious impact on take home pay for all those individuals who currently make contribution out of the pay before tax is applied. A change to RAS would bring salary sacrifice arrangements to an end removing the NIC relief for employer and employees. This would impact on the affordability of some DC schemes with the inevitable reduction in contributions being paid by employers.