

# Workplace pensions – a hidden problem

**A position paper on pension tax relief errors by  
The Low Incomes Tax Reform Group**



# Overview

This position paper examines the misapplication of pension tax relief through payroll, particularly errors arising where relief at source (RAS) pension scheme contributions are incorrectly treated as net pay arrangement (NPA) contributions. Despite some attempts by the authorities to clarify the position<sup>1</sup>, these issues appear to persist.

This paper first explains how the error arises, before examining its consequences, scale, and implications for future policy, including HMRC's forthcoming plan to make top-up payments for around 1.2 million low-earners in net pay arrangements<sup>2</sup>.

Auto-enrolment is a government initiative requiring employers to enrol eligible workers automatically into a workplace pension scheme. Its aim is to increase retirement saving and address under-saving for pensions. Since its introduction in 2012, auto-enrolment has generally been regarded as a success, increasing pension participation across a broad range of workers, including lower earners, women and younger employees. However, with so many employers now responsible for pension administration - including enrolment, contribution processing and payroll deductions - administrative errors are inevitable.

Administrative errors include the following situations:

- Pension contributions being deducted as though the pension scheme operates RAS arrangements when it in fact operates NPA. Under RAS, contributions are deducted from pay after tax and basic rate tax relief is claimed by the pension provider. Whereas under NPA, contributions are deducted from pay before income tax is calculated by payroll. Applying the wrong treatment can result in employees overpaying tax and pension savings being underfunded; and
- Pension contributions being deducted as though the pension scheme operates NPA when it in fact operates RAS. In these circumstances, contributions may incorrectly receive tax relief through payroll and again via the pension provider's reclaim from HMRC, potentially resulting in employees receiving unintended double tax relief and employers facing PAYE compliance risks.

We focus on the second situation in this paper and examine how such errors are exacerbated by counterintuitive payroll terminology, sometimes limited employer awareness, confusing HMRC guidance and difficult correction processes. Although recent evidence on the incidence of these errors is limited, the indicators outlined in this paper when considered against the scale of

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<sup>1</sup> See for example: <https://www.gov.uk/government/publications/pension-schemes-newsletter-105-november-2018/pension-schemes-newsletter-105-november-2018#joint-article-from-hmrc-and-the-pensions-regulator>

<sup>2</sup> In line with the new s193A Finance Act 2004: <https://www.gov.uk/government/publications/low-earners-anomaly-pensions-relief-relating-to-net-pay-arrangements/pensions-relief-relating-to-net-pay-arrangements>

auto-enrolment, suggest that the issue could be significant. Small and micro employers, who often use HMRC's Basic PAYE Tools payroll software and lack professional support, are likely to be particularly affected.

We are concerned that such errors are causing serious problems, including incorrect pension savings outcomes, employer tax non-compliance and with HMRC's data quality. The latter is of particular concern given the potential implications for HMRC's long-awaited scheme to make top-up payments for low earners in net pay arrangements, which will rely on accurate Real Time Information (RTI) payroll data<sup>3</sup>. Although this provision applies from the 2024/25 tax year, the date of the first payments has been delayed to later in the 2026/27 tax year.<sup>4</sup> This provides a critical window for assurance and/or action.

The 'low earners in net pay arrangements' error pathway can be summarised as follows:

Payroll errors → RTI data inaccuracies → Misclassification of pension scheme tax relief type → Top-up misallocation.

It is worth saying that this error pathway may also have affected the numbers of low-earners HMRC have estimated will be impacted by the top up initiative.

Drawing on several years of monitoring and research, this paper sets out a series of recommendations:

- HMRC should replace the confusing payroll/RTI phrase "contributions paid but not under net pay arrangements" with clearer "relief at source" wording to reduce payroll error
- HMRC should make it easier for employers to correct historic PAYE errors and ensure that disclosures also correct or flag underlying RTI pension scheme data
- Relevant authorities should work with stakeholders to confirm clear processes for correcting administrative errors and ensure pension providers treat excess contribution refunds consistently
- HMRC should urgently fix the error in its Employer Bulletin article and publish fuller practical guidance for employers on how to correct pension tax relief mistakes

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<sup>3</sup> <https://www.gov.uk/government/publications/low-earners-anomaly-pensions-relief-relating-to-net-pay-arrangements/pensions-relief-relating-to-net-pay-arrangements>

<sup>4</sup> <https://www.gov.uk/government/publications/pensions-schemes-newsletter-166-january-2025/newsletter-166-january-2025#low-earners-anomaly--payment-update>

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- HMRC should use its own RTI and pension scheme data to produce an estimate of how widespread pension tax relief errors are
- HMRC should urgently review the quality of the data they hold in their systems, cleansing it where necessary. It should also publish a clear policy on what happens if a top-up has already been paid but later a payroll classification error is discovered.

These actions could support the accurate and efficient implementation of the top-up initiative, helping to prevent over- or under-payments to low earners and thereby supporting policy intent and public confidence. By highlighting the underlying issues, we hope our recommendations will also lead to administrative improvements for payroll compliance and the pension tax relief regime - supporting employers but also the long-term success of auto-enrolment, particularly in light of plans to extend its scope further.

We hope this paper will encourage those involved in this area to work together to improve administrative practice and reduce errors. This might include:

- HMRC – by considering the tax-related issues raised in this paper and our recommendations.
- The Pensions Regulator (TPR) – by investing time and resource in understanding the wider implications, and communicating their position and expectations to schemes and trustees regarding administration and correction processes.
- Pensions schemes – by educating employer members about tax relief and ensuring that they are as helpful as possible where errors in administration are found.
- Employers and their representatives – by checking payroll processes, identifying errors and putting right any wrongs.
- The payroll, tax and pension profession – by publicising the problem, promoting corrective action and supporting clients in resolving the issues.

# About us

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those who are least able to pay for professional advice. We also produce free information, primarily via our website [www.litrg.org.uk](http://www.litrg.org.uk), to help make a difference to people's understanding of the tax system.

LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

# Background to the issue

To incentivise people to save for their retirement, employee contributions into a pension receive tax relief. This means that for a typical basic rate taxpayer, for every £80 they contribute, the government adds £20 (although there are some complexities for those on the lowest incomes which we cover later in the section Future problems (page 18)).

There are two ways that an employee's pension contributions can be given tax relief, depending on the type of pension scheme chosen by their employer<sup>5</sup>:

- Under 'net pay arrangements' (NPA): where 100% of the employee's pension contribution is deducted from their gross wages before tax is calculated under PAYE (meaning that most employees receive tax relief immediately); and
- Under 'relief at source' (RAS) arrangements: where 80% of the contribution is taken from wages after tax has been deducted, and the pension scheme reclaims basic rate (20%) tax relief from HMRC<sup>6</sup>.

A key issue arises from the counterintuitive naming of these two methods. Whenever 'net pay' is sounded within payroll, it typically means a net pay deduction, that is, after tax is deducted. Similarly, 'relief at source' in payroll terms, would typically mean relief at the point of payment— so from gross pay. This confusion was formally recognised by HMRC in their August 2023 Employer Bulletin<sup>7</sup>.

Even if employers are familiar with their scheme being administered under RAS, it is unhelpful that some payroll software, including HMRC's Basic PAYE Tools does not use 'relief at source' terminology, but instead refers to "contributions paid, but not under a net pay arrangement". This has the potential to cause even more errors, for example if busy employers inadvertently key the contribution amount into the wrong box.

An example of HMRC's Basic PAYE Tools main input screen can be found below. We note that HMRC's Real Time Information (RTI) system<sup>8</sup> specifications for payroll software providers refers to 'contributions paid under net pay arrangements' and 'contributions paid but not under net pay arrangements', so it seems possible that these confusing data entry options exist in many payroll software systems, not just Basic PAYE Tools.<sup>9</sup>

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<sup>5</sup> Note that salary sacrifice is not technically a method of tax relief so is not included here. Instead the employee consents to a pay cut of the amount to be contributed, which is then submitted to the scheme as a tax and National Insurance free employer contribution.


<sup>6</sup> People that pay tax at more than basic rate can claim additional tax relief from HMRC: <https://www.gov.uk/tax-on-your-private-pension/pension-tax-relief>


<sup>7</sup> <https://www.gov.uk/government/publications/employer-bulletin-august-2023/august-2023-issue-of-the-employer-bulletin#tax-relief-employees-pension-contributions>

<sup>8</sup> Under this system, payroll information is submitted to HMRC by employers each time they pay an employee.

<sup>9</sup> See data item 61 and 65 in the data item guide: <https://www.gov.uk/government/publications/real-time-information-internet-submissions-2026-to-2027-technical-specifications>

Payment date: \*     
eg dd/mm/yyyy

Pay amount for Income Tax purposes: \* £  

Pay amount for NICs purposes: £    
If different from pay amount for Income Tax purposes


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▶ **PAYE details**

▶ **Statutory payments**

▶ **Payrolled benefits in kind**

▼ **Employee pension contributions**

Value of employee's pension contributions paid under "net pay arrangement" : £  

Value of employee's pension contributions paid, but not under "net pay arrangement" : £  

▶ **Tax and NICs free payments**

▶ **Employer real-time Class 1A NICs due on Termination Awards or Sporting Testimonials**

▶ **Off-Payroll worker subject to the off-payroll working rules**

**Recommendation:** HMRC should amend RTI terminology from 'contributions paid but not under net pay arrangements' to 'contributions paid under relief at source' to help reduce ongoing errors.

# The consequences

As a result of the confusing terminology, some employers and payroll service providers may misunderstand how the two tax relief mechanisms operate and apply them incorrectly. The confusion is not limited to employers – in the course of our work we have seen similar misunderstandings of the difference from HMRC officials, Department for Work and Pensions officials and, quite understandably, members of the public.

Where employers misunderstand the tax relief mechanism, two outcomes are possible.

- A contribution is taken from an employee's pay as if it were under RAS but where the pension scheme is set up as NPA. In this situation, tax will have been overpaid and insufficient employee pension contributions will have been paid into the employee's pension pot.
- A contribution is taken from an employee's pay as if it were under NPA but where the pension scheme is set up as RAS. In this situation, there is a double dose of tax relief – once through the payroll and then once when the pension scheme adds the 20%.

In the first scenario, employees are likely to overpay income tax, as contributions are incorrectly deducted from net rather than gross pay, and this may have knock on consequences for the employee<sup>10</sup>. However, HMRC is unlikely to require employers to correct this error from a payroll compliance perspective. The main issue in the first scenario is that the worker's pension is underpaid. This is because the contribution taken under RAS only represents 80% of the total amount, therefore the 'gross' NPA contribution credited to the pension scheme is lower than intended. Employers should advise The Pensions Regulator of the error and need to consider how best to restore the employee's pension pot. This might be by making a compensatory payment<sup>11</sup>.

While both scenarios are problematic and result in payroll inaccuracies and data quality issues for HMRC, the second scenario exposes employers to a greater risk of HMRC compliance action and penalties due to the incorrect operation of PAYE. As tax specialists, and given our role in representing the interests of lower-paid employees and certain micro employers—such as care and support employers who may be particularly vulnerable to HMRC intervention—the rest of this paper therefore focuses on scenario 2.

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<sup>10</sup> For example if they attempt to reclaim higher rate tax from HMRC or are on universal credit (UC) and their income is lower due to overpaid tax, and their universal credit is therefore incorrectly calculated.

<sup>11</sup> Enforcement action by The Pensions Regulator is also ultimately possible:  
<https://www.thepensionsregulator.gov.uk/employers/warnings-notice-and-payment-of-fines>

# What happens where tax relief is incorrectly given via payroll?

Here is a real-life example of a Basic PAYE Tools payslip that has been shared with us (from the 2023/24 tax year), where a RAS pension contribution has been incorrectly treated as NPA in the payroll:

Payments		Deductions	
Pay	£312.60	Income tax	£12.60
		Employee NIC	£8.47
		Pension 'Net pay'	£7.70
<b>Total payments</b>	<b>£312.60</b>	<b>Total deductions</b>	<b>£28.77</b>

**Net pay** £283.83

If the pension contribution had been processed correctly, the payslip should have looked like this:

Payments		Deductions	
Pay	£312.60	Income tax	£14.20
		Employee NIC	£8.47
		Pension 'Not net pay'	£7.70
<b>Total payments</b>	<b>£312.60</b>	<b>Total deductions</b>	<b>£30.37</b>

**Net pay** £282.23

In this situation, the employee's gross pay was £312.60 and the pension scheme was a RAS scheme. In line with auto-enrolment requirements, which typically require employees to contribute a percentage of a band of qualifying earnings<sup>12</sup>, the pension contribution was calculated as:  $(£312.60 - £120^{13}) \times 4\% = £7.70$ .

<sup>12</sup> We set these out in our website guidance: <https://www.litrg.org.uk/employers/pay-and-deductions/pensions-auto-enrolment-information-employers#9>

<sup>13</sup> £120 was, and continues to be, the lower level of qualifying earnings.

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As a RAS contribution, this should have been deducted from the employee's after-tax pay. The pension scheme will have later claimed £1.93 from HMRC as the tax relief, making the contribution worth £9.63 in total (or 5% of £312.60 - £120).

With a tax code of 1257L, the tax due on gross pay of £312.60 should have been £14.20. However, because the employer entered the £7.70 contribution in the payroll software as a NPA contribution by mistake, tax is calculated on £304.90 rather than £312.60. Tax is therefore underpaid by £1.60 for this employee in this pay period alone. Over a full year, the liability for this employee would be £83.20. If the error persists for five years across, say, ten employees, liabilities quickly reach thousands of pounds, plus interest and potential penalties.

If tax relief is being applied via the payroll incorrectly, such that a reduced amount of pay has been subject to tax, it is crucial that employers identify this at the earliest opportunity, change the method of tax relief being applied, and consider how to deal with the historic position (more on this in the next section).

In practice, and in the absence of any built-in checks or balances on HMRC's side (for example, a way of reconciling subsequent RAS contribution relief claims against RTI payroll submissions before repayment is made to the pension scheme), such errors can easily go undetected for extended periods. Indeed they may only come to light when responsibility for payroll administration changes hands, such as when a new payroll provider is appointed. In some cases, errors might date back to the beginning of auto-enrolment— and if not tackled— might continue to exist for many years into the future.

It is important to note that HMRC can assess an employer going back six years where an underpayment of tax has been caused carelessly (longer for deliberate errors).

# Disclosure of an employer payroll error

In the situation where there is double tax relief, once given through the payroll and again given when the pension scheme claims 20% from HMRC, it is the first element of tax relief that is incorrect. The tax relief claimed by the pension scheme is correct. It is essentially an employer error in terms of operating PAYE, which in turn means the employee has paid too little tax on their income.

This error should not give rise to additional assessments by HMRC on the individuals concerned but is a matter for the employer to sort out with HMRC. This is because where an employer makes an error in operating PAYE, in law, HMRC have to collect tax underpayments from the employer<sup>14</sup> unless some special circumstances apply. This is effectively a means of enforcing the operation of PAYE and says that the employer will remain liable for the tax that should previously have been accounted for to HMRC but for whatever reason was not paid<sup>15</sup>.

One option in this situation, to avoid HMRC PAYE compliance action, is for the employer to submit revised payroll submissions. This is usually easy to do for current tax year errors and isolated errors, but gets more complex beyond this.

Another option where the error is identified long after the end of the tax year, or is for multiple employees, is for the employer to make a voluntary disclosure. Although HMRC have a Digital Disclosure Service<sup>16</sup> that taxpayers can use to make disclosures in respect of various different taxes, there is currently only a paper process for employers who wish to disclose errors related to PAYE. In our view, and according to feedback from other stakeholders, the process is 'outdated and inefficient' - with delays of up to 12 months also reported in the trade press.<sup>17</sup>

Another key practical challenge is that current employer disclosure processes do not clearly indicate if or how HMRC will update pay and tax records for individual employees based on the revised information submitted by employers. Unless employers submit schedules detailing PAYE errors on a per-employee basis and HMRC makes corresponding amendments to the employees' records, RTI data will continue to reflect an incorrect pension scheme type.

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<sup>14</sup> <https://www.gov.uk/hmrc-internal-manuals/payee-manual/payee54001>

<sup>15</sup> If HMRC recovers tax from an employer, the employer might have a right of action against the employee; however, they would need to seek legal advice on this

<sup>16</sup> <https://www.gov.uk/government/publications/hmrc-your-guide-to-making-a-disclosure/your-guide-to-making-a-disclosure>

<sup>17</sup> <https://www.accountingweb.co.uk/tax/hmrc-policy/will-hmrcs-dds-bring-improvements-for-employers>

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As we will see later in the section Future problems (page 18), if incorrect data remains in HMRC's systems as to the type of pension scheme the employee is in, this could have various negative impacts.

**Recommendation:** Per HMRC's Transformation Roadmap<sup>18</sup>, by the end of 2028, HMRC plans to "deliver a Digital Disclosure Service to allow customers and intermediaries to correct mistakes and pay liabilities and penalties for all taxes and duties." HMRC should confirm that this includes employer liabilities.

Any such disclosure service should ensure that when employers report payroll tax relief errors, the underlying RTI data on pension scheme type is corrected or at least flagged, ensuring data accuracy for future policy administration.

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<sup>18</sup> <https://www.gov.uk/government/publications/hmrc-transformation-roadmap/hmrcs-transformation-roadmap#reform-and-modernisation>

# Payroll configured to take extra contributions

We have been told, by an adviser in practice, of an extra layer of complexity with the NPA/RAS error situation.

HMRC's Basic PAYE Tools package does not fully automate auto-enrolment contributions, aside from capturing manually entered figures for payroll purposes (as illustrated on page 6). Employers using this software must maintain manual processes to calculate contributions and input them correctly.

We understand most other payroll software is not like this – commercial packages usually carry out different pension tasks and even fully automate them<sup>19</sup>. Depending on the way the pension scheme is set up in such payroll software, if the wrong pension type is assigned to an employee, the contribution may not be the 4% amount as per the example on page 8. A 5% contribution could be taken instead – which is then being paid over to the RAS scheme.

As an example:

- If someone is due to make contributions on £1,000, say, and the scheme is RAS, their net contribution should be based on 4%, i.e. £40, with the further £10 being claimed by the scheme directly from HMRC – equating to 20% tax relief for the employee.
- But if the employer incorrectly puts this in their system as an NPA contribution (which has been assigned employee and employer contribution rates of 5% and 3%), the system automatically calculates a contribution of 5%, i.e. £50. The employee then receives 20% tax relief on this through the payroll (so a £10 tax saving as they are being taxed on £50 less income).
- In addition, the scheme will then claim tax relief from HMRC under the RAS mechanism on the £50 'net' contribution, resulting in a further £12.50 being reclaimed ( $£50 \times 100/80$ ).
- All in all, this results in more than double tax relief, as double relief would be £20, but here we're talking £22.50.
- This arises because the RAS mechanism is incorrectly applied to a 'net' contribution figure of £50 rather than the correct 'net' contribution of £40.

We understand that employers in this situation may be asking the pension schemes to refund the erroneous extra employee contributions (in the example

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<sup>19</sup> See as an example: [https://quickbooks.intuit.com/learn-support/en-uk/help-article/retirement-benefits/pension-quickbooks-online-advanced-payroll/L1C2Kl6DF\\_GB\\_en\\_GB?msocid=1ac99f6a8941662a2b5d8d6088ba670e](https://quickbooks.intuit.com/learn-support/en-uk/help-article/retirement-benefits/pension-quickbooks-online-advanced-payroll/L1C2Kl6DF_GB_en_GB?msocid=1ac99f6a8941662a2b5d8d6088ba670e)

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above the difference between £40 and £50, so £10) so they can then use that to pay the the incorrect payroll tax relief back to HMRC.

However, despite HMRC's extensive guidance on refunding contributions due to 'administrative errors' being (in our view) quite clear<sup>20</sup>, we have heard anecdotally that not all pension providers are following it. Some pension providers are offering alternative workarounds but others are simply refusing to refund incorrectly paid contributions, perhaps because they do not feel they can rely on the guidance alone.

We do not have data on how widespread such instances might be. However, we understand that the lack of legislative underpinning for the administrative error guidance is leading to confusion and inconsistencies, which may be straining employer-pension provider relationships and hindering employers' ability to make and fund correction disclosures to HMRC.

**Recommendation:** Relevant authorities should engage with stakeholders to confirm the processes for correcting administrative errors and to ensure consistent treatment of excess contributions across pension providers.

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<sup>20</sup> <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm146600>

# Guidance

Until recently, there has been very little specific guidance available to help employers understand the pension tax relief error issue and what to do if they have made errors.

We were therefore pleased to see an article in the August 2023 Employer Bulletin on ‘Tax relief on employee contributions to registered pension schemes’<sup>21</sup>, but slightly surprised when this was amended on 9 November with some quite substantive changes (original version available in the National Archives)<sup>22</sup>.

We have also noticed that there is a typographical error, even in the revised version. The following should read “contributions under net pay”:

## Examples of mistakes

### Via Real Time Information (RTI) FPS submissions

This could be when an employer makes the mistake of reporting RAS (not under net pay) contributions through RTI in the data fields for a net pay scheme. This results in providing tax relief through payroll incorrectly, in addition to the tax relief correctly provided via the pension scheme provider and HMRC PSS. The excess relief provided is an employer payroll failure, and the employer is liable for the tax under deducted and remitted to HMRC.

Any employer that is uncertain should check with their scheme provider on how the scheme is registered. If any employer then determines that their payroll is configured so that they have reported RAS contribution in the FPS reporting field for “contributions not under net pay” they should correct this immediately.

Any errors identified from previous periods should be reported through the [HMRC digital disclosure facility](#).

If you are a Large Business with a Customer Compliance Manager (CCM), you should report this through direct engagement with your CCM.

Despite us highlighting the error to HMRC shortly after publication, at the time of writing (May 2026) the typo remains. This error highlights perfectly the problem with the confusing wording in payroll software that we have flagged above in the Background section on page 5.

More broadly, other than this article in the Employer Bulletin, there has been limited awareness-raising or targeted outreach to publicise the issue and to provide practical guidance to employers—both to enable them to correct historic errors and to ensure correct treatment going forward. The bulletin only goes so far as to say that errors should be reported through the Digital Disclosure Service.

<sup>21</sup> <https://www.gov.uk/government/publications/employer-bulletin-august-2023/august-2023-issue-of-the-employer-bulletin#tax-relief-employee-pension-contributions>

<sup>22</sup> <https://webarchive.nationalarchives.gov.uk/ukgwa/20230902102147/https://www.gov.uk/government/publications/employer-bulletin-august-2023/august-2023-issue-of-the-employer-bulletin#tax-relief-employee-pension-contributions>

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Additionally, there is perhaps a perception of limited levels of routine employer compliance checking through which such errors would be likely to surface and be corrected. Taken together with the issues set out above, this creates a risk that many employers are either unaware of the problem or aware of it but unsure how to proceed. In either case, significant issues may be being stored up for the future.

This is particularly concerning given that the RTI data will be used to implement the forthcoming low-earner net pay arrangement top-up payments, as discussed in the section Future problems on page 18.

**Recommendation:** HMRC should urgently change their Employer Bulletin guidance to reflect the correct position.

In the longer term, HMRC should develop and cascade a page of tier two static guidance on GOV.UK for employers explaining what to do if errors are made. This should be detailed and deal with both scenarios – i.e. net pay contributions having been treated as relief at source and vice versa, clarifying how to rectify problems for all concerned – the scheme, the employer and the employees involved.

## Scale of the problem

In September 2018, in an article called “Errors in pensions tax relief cost millions”, the Financial Times reported on some PensionSync research<sup>23</sup> saying: “Millions of pounds of tax relief has been overpaid to workplace pension savers in the UK following errors made by tens of thousands of employers. Regulators conceded this week that workers had wrongly benefited from double doses of pensions tax relief due to employers making mistakes...”

The PensionSync research in question was based on analysed data representing contributions to over 10,000 schemes. Although the original research is no longer accessible (that we can find), it has been widely reported that the research revealed that data sent on behalf of employers to pension providers had a 50% error rate— although this will not all be down to incorrect tax relief issues<sup>24</sup>.

We note a comment in the article from a TPR representative opining that it will be mainly small employers making these errors. We agree with this - these employers typically have no professional assistance, meaning that not only are errors more likely in the first place, but also that the issue could exist for many years, potentially with significant consequences.

We also note that small employers include many micro or ‘accidental’ employers (by accidental employers, we mean those not running a business, such as those employing a carer). We know from our work supporting this population with their obligations<sup>25</sup> that these employers are more likely to consider the default government scheme (NEST which is RAS), and they are probably also more likely to use Basic PAYE Tools.

Although we have not identified more recent published data on the incidence of pension tax relief errors, including from Freedom of Information responses, the following indicators suggest that the issue remains prevalent:

- Input from LITRG staff with recent tax practice experience, suggesting that pension tax relief errors remain common
- CIPP quick poll results November 2025<sup>26</sup> showing that 49/147 payroll professionals have regularly or occasionally encountered tax relief error issues, since HMRC’s attempts to clarify the position in the August 2023 Employer Bulletin
- ICAEW article June 2025: Check the tax relief method of workplace pensions, says ICAEW<sup>27</sup>

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<sup>23</sup> <https://www.ft.com/content/2f7cbe94-b732-11e8-bbc3-ccd7de085ffe>

<sup>24</sup> We understand analysis found errors included contribution rates that are too high or too low, incorrect pension scheme identifiers, incorrect postcodes, incorrect spelling of names, incorrect pay period dates and contributions made for workers who do not belong to a scheme because they have opted out or left.

<sup>25</sup> Our website guidance for care and support employers can be found here: <https://www.litrg.org.uk/employers/independent-living-paying-care>

<sup>26</sup> <https://www.cipp.org.uk/resources/news/qp-results-tax-relief-errors-pension-contributions.html>

<sup>27</sup> <https://www.icaew.com/insights/tax-news/2025/jun-2025/check-the-tax-relief-method-of-workplace-pensions-says-icaew>

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- Video posted to YouTube by The Pensions Regulator June 2024: What to do when the wrong tax relief method is used<sup>28</sup>
- Contact via our website, for example:

February 2024: *'I've been reading your article dated 18 September 2023 (<https://www.taxadvisermagazine.com/article/how-deal-pension-tax-relief-errors-update>) regarding pension tax relief errors. I'm currently dealing with errors of this nature and I've experienced alternative corrective measures offered by pension provider. I've also encountered providers who are unwilling to facilitate any corrections whatsoever. Is this something you are also aware of?'*

July 2023: *'Dear Sir or Madam, I came across this article from Tax Adviser (<https://www.taxadvisermagazine.com/article/pensions-net-payment-arrangements-v-relief-source-payroll-mistakes-how-common-are-they>) which is of interest. Did you ever produce a follow up article with the outcome please?'*

July 2022: *'We are a firm of accountants who have very recently taken over a client's payroll where they have made the mistake of processing their payroll on a net pay arrangement basis, and their pension scheme is with NEST (relief at source). They are a sole trader operating a small business. We have yet to quantify the size of the error. This is the first time we have come across such a situation. I came across this article and wondered if you had any feedback as to how others might have gone about resolving these types of issues.'*

**Recommendation:** HMRC should use its own data and intelligence to produce an up-to-date estimate of the scale of pension tax relief errors. We think this analysis could be undertaken by comparing RTI data with annual information received from pension schemes that have claimed relief at source tax relief during the year<sup>29</sup>.

<sup>28</sup> <https://www.youtube.com/watch?v=hCVyCmljr5M>

<sup>29</sup> Pension schemes do not need to give HMRC a breakdown of members when they make a claim for the tax relief but they do have to send in an annual return which should include name, NINO, address, DOB of each member: <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm044220>

## Future problems

The success of auto-enrolment means that we are likely to see continued growth and expansion of the policy.

Changes are soon expected to the eligibility criteria of auto-enrolment, for example changing the eligibility age from 22+ to 18+ and to remove the lower limit of qualifying earnings, such that contributions are due on every £1 of earnings.<sup>30</sup> Other potential changes<sup>31</sup> could mean more engagers of the dependent self-employed may need to auto-enrol their workers – for example, in the gig economy. Beyond this, there is also some suggestion that contribution rates should increase from 8% to say, 12%<sup>32</sup>.

Such changes would significantly increase the number and amount of pension contributions being made. Unless corrective measures are taken, these changes are likely to exacerbate existing tax relief errors.

Allowing errors to persist in the underlying RTI data on employee pension contributions, may also mean that HMRC calculations under the new s193A Finance Act 2004 provisions will potentially be incorrect<sup>33</sup>.

These provisions address a discrepancy in the way pension contributions are treated for different types of workers. Until recently, individuals earning below the income tax threshold who were members of NPA schemes may not have received the tax relief they would have obtained had their scheme operated on a RAS basis.

The solution to this issue involves HMRC identifying affected workers in net pay schemes and making a 'top up payment' equal to the tax relief they would have received in their pension pot if they had been under a relief at source scheme. This would be automatically calculated. As the onus is on HMRC to contact workers about making such top-up payments proactively, they will presumably need to use their internal RTI data to do this.<sup>34</sup>

The legislation takes effect from the beginning of the 2024/25 tax year, and is intended to benefit over a million low-income workers (approximately three-quarters of whom are women) who are currently missing out on government incentives towards their pension savings. However, obviously if people are incorrectly earmarked in a RAS/NPA scheme based on HMRC's RTI data, then they may miss out on this top up or indeed, receive one that is not due.

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<sup>30</sup> The Pensions (Extension of Automatic Enrolment) Act 2023 received Royal Assent on 18 September 2023 although it does not make any immediate changes to the current regime, requiring regulations to be made to bring its provisions (and the corresponding amendments to the Pensions Act 2008) into force.

<sup>31</sup> Find a summary of the position for self-employed people in the House of Commons briefing: <https://researchbriefings.files.parliament.uk/documents/SN06417/SN06417.pdf>

<sup>32</sup> Different industry bodies and think tanks have advocated for this shift to address under-saving, though debates continue.

<sup>33</sup> <https://www.gov.uk/government/publications/low-earners-anomaly-pensions-relief-relating-to-net-pay-arrangements>

<sup>34</sup> We set out how the payment will work here: <https://www.litrg.org.uk/pensions/paying-pensions/tax-relief-pension-contributions/pension-tax-relief-problems-low-earners>

**Recommendation:** HMRC urgently need to assess the quality of the data they hold in their systems, cleansing it where necessary.

While prevention is preferable, HMRC should also establish a clear policy position on cases where a section 193A top-up payment has been made and a payroll error is identified affecting scheme classification. In particular, HMRC should confirm whether such payments would be subject to recovery. For certainty and transparency, this position should be published on GOV.UK.

# Conclusion

As of April 2026, approximately 11.4 million people have been auto-enrolled in workplace pensions in the UK since 2012<sup>35</sup>. The policy has significantly boosted participation in workplace pension schemes, transforming the retirement savings landscape in the UK, particularly among lower-paid workers who might not have otherwise saved for retirement.

Despite its overall success, the implementation of auto-enrolment has not been without issues. In particular, apparent misunderstandings around the operation of net pay arrangements and relief at source schemes will have led to the misapplication of pension tax relief, giving rise to the range of problems identified in this paper.

Addressing these issues requires immediate and coordinated action by all relevant bodies, with HMRC taking a central role. By following our recommendations—adjusting software/RTI terminology, enhancing employer disclosure processes, clarifying expectations, improving employer awareness, assessing scale and reviewing data quality—past mistakes can be rectified and future ones prevented.

Having campaigned for many years for a solution to the low-earner net pay arrangement anomaly, we are keen to ensure that rollout is not delayed further or even undermined by data quality or operational issues. More broadly, as tax professionals with insight into HMRC's systems and processes, we hope that highlighting the underlying issues in this paper will contribute to wider improvements in the administration of pension tax relief, for the benefit of employers, pension schemes and savers alike.

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<sup>35</sup> <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/automatic-enrolment-declaration-of-compliance-report>

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