

**HM Treasury Call for Evidence – Pensions tax relief administration**  
**Summary submission by the Net Pay Action Group**

**1 The Net Pay Action Group – about us**

- 1.1 The 'Net Pay Action Group' (NPAG) consists of pension providers, lawyers, tax specialists, payroll specialists, employers, consumer groups and policy experts, who are all concerned about an injustice in the tax system which means around 1.7 million low-income workers (mostly women) are being unfairly charged 25 per cent more for their pensions as a result of the way their employer pension scheme operates.
- 1.2 The members of the NPAG are: Low Incomes Tax Reform Group (part of the Chartered Institute of Taxation), Baroness Ros Altmann, The Chartered Institute of Payroll Professionals, AgeWage, NOW: Pensions, The People's Pension, Pension and Lifetime Savings Association, The Investing and Saving Alliance, Association of British Insurers, Trades Union Congress, Age UK, Royal London, Smart Pension, The Pensions Administration Standards Association, Ruston Smith, Sir Steve Webb.
- 1.3 Some of the NPAG members are submitting their own responses to the call for evidence. These will bring out the particular perspectives and expertise of the member in question. This submission, from the group as a whole, is to highlight our common approach to this important matter.

**2 Summary of our views**

2.1 NPAG members agree that:

- Action must be taken to ensure 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 relief at source 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.
- We continue to press for HM Revenue & Customs (HMRC) to deliver the solution put forward in our previous submissions<sup>1</sup> ('suggested approach 1' in the call for evidence). We believe the call for evidence misrepresents the impacts of this approach.

**3 Comments on 'suggested approach 1'**

- 3.1 The call for evidence paper puts forward a number of perceived hurdles to HMRC making an equalisation payment to low-income workers in net pay schemes. Our reaction to each is below.

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<sup>1</sup> See our 2020 Budget representation: <https://www.litr.org.uk/latest-news/submissions/200204-budget-representation-2020-net-pay-action-group>

- 3.2 ***'Net pay scheme administrators would have to report their membership to HMRC so that potential bonus recipients can be identified' (para 5.15, bullet 1), and 'It creates disproportionate burdens on... pension scheme administrators' (para 5.20)***
- 3.2.1 Unlike relief at source schemes (which are a combination of employment, self employment and stakeholder pensions), net pay schemes are exclusively linked to employment relationships. Employers give HMRC details of net pay pension contributions via PAYE real-time information (RTI).<sup>2</sup> There is therefore no need for HMRC to collect the same data from schemes. Hence, there would be no extra burden on scheme administrators.
- 3.2.2 This approach simply asks that HMRC match data already in their possession – something which we understand they intend to do under plans to reform tax administration more generally.<sup>3</sup>
- 3.3 ***'Members of net pay schemes would have to have their personal allowance reduced' (para 5.15, bullet 2; and para 5.18)***
- 3.3.1 Put simply, we do not understand this argument. An analogous situation is that of non-taxpaying 'stakeholder' pension contributors. They get tax relief on their pension contribution but do not have their personal allowance restricted.
- 3.4 ***'A claim is necessary' (para 5.15, bullet 3)***
- 3.4.1 A claim is not necessary. Under the 'P800' system for reconciling individuals' tax affairs each year, where a refund is due, HMRC send the individual a calculation of the amount. The individual may then go online to ask for that repayment to be made direct to their bank. However, if they do nothing, HMRC send them a cheque after 45 days.
- 3.5 ***'A new payment system would be required' (para 5.15, bullet 4)***
- 3.5.1 Relief at source pension contributors get tax relief on their contribution irrespective of whether they pay tax. No clear explanation has been advanced as to why it is not possible to write the legislation to define any equalisation payment as tax relief, for example in the same way as it is for stakeholder pensions. In any event, the coronavirus situation has demonstrated that HMRC are capable of delivering new payment systems (and at pace) if the will is there.
- 3.6 ***'There will be a... significant time lag between contribution and bonus' (para 5.16)***
- 3.6.1 This is the same for any repayment of tax under HMRC's systems. Delay is not a reason for inaction.
- 3.7 ***'There will be complex issues, for example how it interacts with the... tax and benefits systems' (para 5.17)***
- 3.7.1 National, devolved and local government have all instigated various support measures during the coronavirus pandemic. The tax and benefits treatment of these payments – delivered at speed – has been confusing and complex. However, these problems are not insurmountable and with a relatively

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<sup>2</sup> As acknowledged in the call for evidence, para 2.10.

<sup>3</sup> HMRC, HM Treasury Corporate Report: 'Building a trusted, modern tax administration system', 21 July 2020

minor effort at the outset – HM Treasury and HMRC engaging with other arms of government – the treatment of any equalisation payment could be decided and legislated for.

- 3.7.2 For example, if an individual is due a tax refund relating to employment income, this is to be treated as income for universal credit, yet HMRC does not pass details of tax refunds to DWP to be automatically included in benefit calculations. This is already therefore a problem – and one which could be addressed by improved interaction between the two Departments. Payment of a further amount to net pay pension contributors is therefore no different and could be dealt with in the same way.

#### **4 Conclusion**

- 4.1.1 In summary, we do not believe any of the difficulties with ‘suggested approach 1’ set out in the call for evidence present a substantial obstacle to its implementation, and that the suggested additional burdens on savers, employers and pension schemes are either erroneous or over-stated. We remain committed to this approach and to working with HMRC to deliver it.

The Net Pay Action Group  
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