

Department for Work and Pensions
Simpler annual benefit statements: draft regulations and statutory guidance
Response from the Low Incomes Tax Reform Group (LITRG)

1 Comment

- 1.1 We welcome the commitment to delivering simpler annual pension statements and the opportunity to comment on draft regulations and statutory guidance.
- 1.2 While we do not repeat all of the comments we made in the earlier stages of consultation¹, we wish to reiterate the statements need to include a clear warning about the interaction of pensions with tax and benefits. That is to say that projected pension figures are *before* income tax deductions and therefore may not represent the amounts the taxpayer will receive after any such deductions, and that any pensions planning needs to take into account the impact on welfare benefits.
- 1.3 Through queries received via our website², we know that people make costly mistakes when taking pension withdrawals if they do not understand the tax ramifications of doing so. Not warning people of potential tax liability on pension withdrawals and any implications of pensions decisions on welfare benefits may also lead to them to misjudge the adequacy of their savings.
- 1.4 For these reasons, we recommend that providers are mandated to include a warning that pension withdrawals may be taxable and might be taken into account in assessment of welfare benefits entitlement. While the statement space is obviously limited to two sides of A4 overall, a simple one-liner should suffice to flag the matter. For example: “You might have to pay tax on money you take out of your pension and pensions decisions can affect welfare benefits entitlement, depending on your circumstances.”

¹ See our response in December 2019: <https://www.litrg.org.uk/latest-news/submissions/191211-simpler-annual-benefit-statements-workplace-pensions>

² LITRG’s websites receive over 5.5million visitors a year.

2 About Us

- 2.1 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 on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 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.

LITRG
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