



Call for evidence on pensions tax administration

RESPONSE FROM ICAS TO HM TREASURY

12 October 2020

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Background

ICAS is a professional body for more than 22,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business and in the not for profit sector; many leading some of the UK's and the world's great organisations. Others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have over 4,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

Overall comments

ICAS welcomes the opportunity to comment on HM Treasury's call for evidence on pensions tax administration.

We recognise the UK government's commitment to consulting on options for resolving the net pay anomaly which impacts on lower earners participating in pension schemes and arrangements operating on a net pay basis.

However, we do not favour a solution which involves wider changes to the administration of pensions tax relief which could impact on more pension savers than the 1.5 million lower earners currently losing out on a top-up bonus by being enrolled in net pay arrangements.

Option 1, paying a top-up bonus, is the only option which would resolve the anomaly without implications for a wider group of pension savers or for other aspects of pensions administration. We recognise that this would involve the introduction of new processes, accompanied by new governance and internal control arrangements, therefore, it would be incumbent on the government to work with employers and administrators to minimise the costs to them of implementing and operating a top-up bonus system.

Option 2 would remove the top-up bonus from lower paid members of schemes operating a relief at source (RAS) model, disadvantaging the 1.3 million people currently receiving a top-up. Pensions auto-enrolment has been transformational in terms of the number of people now saving for a pension and removing the top-up in order to remove the net pay anomaly is likely to be perceived as unfair and could undermine public trust.

Option 3 which would require all lower earners impacted by the net pay anomaly to be enrolled into a scheme using RAS would be impractical especially for smaller employers. However, it could be part of the solution especially if master trusts were willing to offer employers of all sizes the ability to enrol lower paid members into a RAS arrangement, if this would provide those members with a better outcome.

Option 4, moving defined contribution (DC) schemes and arrangements to RAS would seem the most disruptive option as this would impact on a larger number of savers than are currently impacted by the net pay anomaly. This would seem a disproportionate way of resolving the anomaly.

Net pay arrangements are administratively more straightforward for schemes operating in Scotland and in Wales where income tax is partially devolved. As tax relief is automatically received at the pension savers marginal rate of tax, different rates of income tax arising due to decisions made in Scotland or Wales do not impact on the administration of pension contributions.

We have responded to selected questions only and our responses to these are set out below.

We are content for our response to the consultation to be made public. Any enquiries should be addressed to Christine Scott, Head of Charities and Pensions, at cscott@icas.com.

Responses to selected questions

Question 3

Option 1 - Are there ways that this approach [paying a bonus using Real Time Information (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?

Response

We recognise that paying a bonus using RTI data cannot be achieved without introducing new procedures (accompanied by new governance and internal control arrangements) and with new procedures additional complexity and cost is unavoidable.

However, this approach would resolve the net pay anomaly by placing lower earners in net pay schemes in the same position had they been members of a RAS scheme, albeit the bonus payments would not be received until several months after the end of the tax year.

For lower earners saving into a pension, it will be important to have a straightforward mechanism for the bonus to be paid into the pension scheme, should that be what they wish to do. Therefore, we recommend exploring a mechanism whereby the bonus can be paid directly by HMRC to the scheme.

Ultimately, if it is UK government policy to address the anomaly, this approach or one similar to it may be the most practical and effective way of achieving this. However, we recognise that comments from scheme administrators about option 1 will be key to assessing its feasibility from a cost versus benefit perspective.

Any costs incurred by administrators in implementing option 1 will impact on the costs of running the scheme as a whole and, directly (possibly in terms of increased charges for DC scheme members) or indirectly (in terms of increasing the cost to the employer or the trustees of running a defined benefit (DB) scheme), on all members of the scheme. Therefore, it would be incumbent on government to keep the administrative and cost burdens placed on employers and administrators to a minimum if option 1 is to be implemented.

Question 4

Option 2 - 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.

Response

While removing the top-up would reduce complexity, it would penalise lower earners at a time when it is UK government policy to encourage people to save for their retirement. Removing the top-up would run counter to this policy and would likely be perceived by lower earners currently receiving the top-up and by the public as being unfair. This could undermine public trust in pension saving.

Question 5

Option 3 - We would welcome views on whether this approach [employers operating multiple schemes] would:

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

Response

We believe that option 3 could be part of the solution in that it could reduce the number of pension savers receiving a top-up bonus payment via option 1. However, we do not believe that this should be made compulsory for employers.

Some master trusts offer employers the option to use a net pay or RAS arrangement for their employees, so it may be possible in some instances for lower earners be placed in a RAS arrangement while others remain in a net pay arrangement within the same scheme. This would be subject to agreement between the employer and the master trust.

Question 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?

Response

We would not support such a measure and we do not believe it is a proportionate solution to resolve the net pay anomaly. This could resolve one anomaly by creating another one – a difference between the options available for DB and DC schemes (if DB schemes were not forced to use RAS). This could be perceived as unfair by employers who have made a business decision to use a net pay arrangement and by members already accustomed to saving into a net pay arrangement as part of their remuneration and benefits package.

It could also lead to taxpayers whose marginal rate of tax is higher than the basic rate failing to claim the additional tax relief they are entitled to, potentially creating a different disadvantaged group. If this option is adopted, HMRC and employers would need to ensure that information was provided to anyone affected and that they understood how to make the necessary claims to HMRC.

RAS arrangements are based on the UK basic rate of income tax which applies in England and Northern Ireland. This means that net pay schemes are administratively more straightforward in Scotland and in Wales where income tax is partially devolved and therefore rates can and do vary from the UK basic rate. For example, in Scotland there is a starter rate of 19%. At the moment, HMRC has to recover the difference between the 20% UK basic rate and the 19% percent starter rate from Scottish tax revenues for schemes using RAS.

Question 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.

Response

We would not support this approach for the reasons we set out in question 6. It may also discourage new providers of DC pensions from entering the market as they would not be able to compete on a level playing field with existing providers offering net pay arrangements.

Question 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 in collecting evidence on challenges that prohibit such an approach.

Response

Consistent with our response to question 6, we would not support extending RAS to all DB schemes. This would also seem like a disproportionate step to take to resolve the net pay anomaly.

Question 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

Response

See our response to question 7 regarding the partial devolution of income tax to Scotland and to Wales, highlighting that net pay arrangements are administratively simpler.