



ADVERTISEMENT

Ad closed by Google

Stop seeing this ad

Why this ad? ▶

# Fix tax quirk that deprives low paid of free pension cash, campaigners urge in letter to Chancellor

- Lower paid are blocked from getting up to £720 a year of Government cash
- Tax technicality must be fixed, campaigners say in letter to Chancellor
- Treasury already working on related problem that affects 21% Scottish taxpayers
- They are missing out on the 1% extra tax relief they are due, compared to English and Welsh taxpayers on 20%
- Letter signers point out the solution to this could help both groups

By [TANYA JEFFERIES FOR THISISMONEY.CO.UK](#)

**PUBLISHED:** 09:24, 6 October 2018 | **UPDATED:** 09:27, 8 October 2018



**10**  
shares

**53**  
View comments

Campaigners are urging the Chancellor to act urgently to fix a tax quirk that deprives low earners of free pension cash handed to better off workers.

The technicality that denies top-ups to hundreds of thousands of savers must be

addressed, according to a letter to Philip Hammond signed by two ex-Pensions Ministers, industry experts, a leading charity and the TUC, among others.

In a 'secret scandal' **previously highlighted by This is Money**, the lower paid are being blocked from receiving up to £720 a year of Government cash that is given to most other workers.



**Pension tax quirk: A technicality is denying pension top-ups to hundreds of thousands of savers**

Campaigners who include Former Pensions Minister Ros Altmann, NOW: Pensions and the Chartered Institute of Taxation, say action is necessary now to prevent auto enrolment being undermined.

They fear a new pension mis-selling scandal is brewing, as low earners realise that the well-publicised promise that Government tax relief, in addition to free employer cash, will be paid into their pots is not being fulfilled.

**SHARE THIS ARTICLE**



**RELATED ARTICLES**



**Ex-minister spearheads campaign to give all low earners same...**



**Government to rethink 'indefensible' tax quirk depriving low...**

Are you saving enough for retirement? Check with our pension calculator

'Many are unaware of this, but we urge you to address the situation urgently for these low-paid workers who can least afford the added cost,' says the letter. Read it in full below.

The letter signers point out that the Treasury is already working on a related problem that affects 21 per cent Scottish taxpayers.

They are missing out on the 1 per cent extra tax relief they are due, compared to English and Welsh taxpayers on 20 per cent, because of the technicality hitting the low paid - and the solution to this could help both groups.

Lady Altmann said: 'There is a growing recognition at last of the injustice of this situation.

'I will not stop pressing the Government to sort this out as soon as possible.

'I am horrified that there has been no resolution and the problem is still being swept under the carpet.

'I have been promised a meeting with Treasury but it is being delayed.

'Meanwhile low earners, mostly women, keep losing more and more money. The Department for Work and Pensions and the regulator need to ensure action is taken to give these low earners their money. I am going to keep the pressure up within and outside Parliament.'

Troy Clutterbuck, chief executive of NOW: Pensions, said: 'Through no fault of their own, lower paid workers in net pay schemes are missing out on the tax relief they would receive if they were in a relief at source scheme.

## Why is tax quirk hitting lower paid?

Workers auto-enrolled into pensions are told the money they pay into their retirement pots will be topped up with both employer and Government cash.

But for many on a low pay-rung this is not the case. They never get the Government tax relief, because their employers - often unwittingly - sign up to one of the many 'master trust' pension schemes that don't pay it into their pots.

Those which use a 'net pay' system exclude low earners from getting tax relief, while those using a 'relief at source' system allow all workers to get it. [Read more here.](#)



Figures from HMRC suggest that this could be affecting more than a million people, the majority of whom are women, and this number is only going to grow.

'We are pushing for action on this now as we know that HMRC are looking at solutions to solve an issue that has arisen in relief at source schemes as a result of devolved taxation.

'We firmly believe that the government should make sure that any system changes they make also put things right for these workers.'

Caroline Abrahams, charity director at Age UK, said: 'Lots of low earners, particularly women, whose employer uses a net pay scheme are failing to get the Government contribution towards their pension saving.

'This is deeply unfair and means that the very people who are likely to need this financial help the most aren't getting it, which potentially could have significant knock-on consequences for their finances and make them more likely to opt-out from pension saving.

'It's vital the Treasury reform the pensions tax relief system to ensure that those most in need are not losing out when saving for their future.'

Paul Nowak, deputy general secretary of the TUC, said: 'Everyone deserves a decent retirement. But many low earners are being denied the tax benefits other savers receive.

'They end up having to save more just because their employer has put them in a particular scheme. The government must act now to end this pensions lottery.'

## What does the Government say?

A Government spokesperson said: 'The government is looking at the opportunities provided by the move to a modern digital tax system to tackle any differences of treatment in provision of tax relief for pensions.'

It has previously said on this issue: 'We are committed to helping people save for retirement and building on the success of automatic enrolment with 9.5million people now newly saving or saving more as a result.

'Both net pay and relief at source arrangements have advantages, with relief at source arrangements being particularly appropriate for lower earners – but ultimately is up to employers to decide what is most appropriate for their staff.

'NEST [the state-backed auto enrolment scheme], which now has over 6 million members, operates a relief at source arrangement as do several other large schemes used for automatic enrolment.'

