

Tax November 26, 2018

# Govt admits pension tax relief blunder

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By **Maria Espadinha**

Financial Adviser

**H**M Revenue & Customs (HMRC) has revealed that some savers have been receiving tax relief twice, while others aren't receiving what they are due.



The tax blunder is due to the two existing types of schemes in the UK, relief at source and net pay

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arrangement, the taxman stated in its November newsletter for pension schemes, published on Friday (November 23).

In schemes that operate the former, members make their contributions from their pay after income tax has been deducted, and the scheme administrator claims the basic rate relief back from HMRC and pays this into their pension scheme on the member's behalf.

In schemes that operate the latter, members get tax relief by making their contributions before their pay is taxed so the member gets the tax relief straightaway.

In a joint article with The Pensions Regulator the taxman revealed that in net pay arrangement schemes some member contributions were made after tax and national insurance had been deducted.

"This means the member will not have received the right amount of tax relief," it stated.

In relief at source schemes, HMRC said there are some cases where member contributions were paid from their salary before tax and national insurance had been deducted.

Basic rate tax relief on these contributions is then being claimed from HMRC, which "results in the member getting too much tax relief," it added.

Scheme administrators which think their members have been given the wrong amount of tax relief for these reasons are being asked to contact the taxman.

The government has been asked to solve issues caused by the different type of schemes and the way savers can claim tax relief by several experts, including former pensions ministers Baroness Ros Altmann and Sir Steve Webb.

Up to 1.22 million low earners which are enrolled in net pay arrangement schemes could miss out on £78m in tax relief in 2019/20, according to analysis from Now: Pensions.

Mike Lacey, partner at Berkshire-based financial adviser firm Bowman Pension Consulting, said: "This isn't really an HMRC error, it's an error by whoever is responsible for managing the pension scheme, caused by lack of knowledge.

"I suspect this is a considerably more widespread issue than HMRC realise. I first came across it at least a decade ago. Should HMRC try to reclaim the additional tax relief, some employers will face very angry staff.

"Another reason to fundamentally review the whole subject of how tax relief is given on pension contributions."

*maria.espadinha@ft.com*