Half a million more low paid workers will miss out on pension top-ups unless 'cruel' tax flaw is fixed by April

- **Number of low paid workers missing out will swell due to pending tax changes**
- **Lottery over employer's choice of pension scheme also determines who is affected**
- **Three quarters of those currently facing a hit to pension pots are women**
- **Critics are demanding urgent government action to address 'injustice'**

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Half a million more low paid workers could be deprived of pension top-ups unless the Government fixes a 'cruel' tax quirk by next April.

The number of workers affected is set to swell next year due to pending tax changes, and the 'lottery' of what type of pension scheme their employer has chosen, say and the 'lottery' of what type of pension scheme their employer has chosen, say experts.

Some 1.22million people are already estimated to be missing out on up to £720 of government pension cash a year, while the better off are paid top-ups automatically.

Tax quirk: Well over a million people are estimated to be missing out on up to £720 of Government pension cash a year

Three quarters of those currently facing a hit to their pension pots are low paid women, **according to the latest HMRC figures.**

Critics are demanding urgent government action, warning that otherwise the problem will get worse before it gets better.

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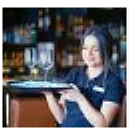

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This is because Government has just announced that the earnings threshold at which people are automatically enrolled into pensions will be frozen at £10,000.

However, the Chancellor already said in the Budget that the level at which people start to pay tax is set to rise from £11,850 to £12,500.

Some people who earn between those two sums lose pension tax top-ups - but whether or not you miss out depends on the tax mechanism used by your work pension scheme. **See the box below.**

The tax change next April could easily add nearly half a million to the number of people already affected, according to Steve Webb, former Pensions Minister and now policy director at Royal London.

'The gap between the point at which people are enrolled into a pension and the point at which they start paying tax will become a chasm in 2019,' he says.

'This means hundreds of thousands more workers will find that whether or not they get tax relief will depend on the lottery of what pension arrangement their employer has chosen for them.

'Government cannot keep kicking the can down the road on this issue. It now needs to be resolved as a matter of urgency.'

Tom Selby, senior analyst at AJ Bell, said: 'The 'net pay' auto-enrolment problem looks set to get worse before it gets better as the gap between the point at which members pay income tax and the earnings level at which they get automatically enrolled widens from April next year.

Why are some lower earners losing pension top-ups?

Most master trusts, which manage centralised funds for lots of employers at once, use a tax mechanism called 'net pay' that is convenient for top-paid staff but penalises lower earners.

This allows higher rate taxpayers on £46,350-plus a year and additional rate taxpayers on £150,000-plus a year to avoid filling in annual tax returns to get Government pension top-ups, in the form of tax relief on their contributions. They get them automatically.

But it means anyone in the workforce earning between £10,000 and £11,850 a year loses their top-ups for good, with no option available at present to claim them back.

There is an alternative tax mechanism which master trusts can use called 'relief at source' that does not disadvantage people on low wages.

It gives the low-paid workers their

Over a million people in net pay schemes are already thought to have been affected by this anomaly, which robs them of the valuable tax relief they are entitled to when saving in a pension.

It is particularly cruel that this flaw in the system affects the lowest earners.

The Department for Work and Pensions has now passed the buck to HMRC, hoping that the shift to becoming 'one of the most digitally advanced tax administrations in the world' will provide a ready-made solution.

But until that happens this pension tax injustice will continue.'

Government pension top-ups, which they would otherwise be denied, while better paid workers still end up getting their full whack by submitting a tax return. Basic rate taxpayers are not affected either way. **Read more here.**

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.

Experts fear a new pension mis-selling scandal is brewing, as many low earners realise that this well-publicised promise is not being fulfilled because of a tax quirk the Government has failed to address so far.

They have long sounded the alarm, calling the tax technicality **'indefensible' and an 'utter scandal'.**

Ex-Pensions Minister and campaigner Ros Altmann has **declared it an injustice** and warned it would undermine faith in the successful auto enrolment initiative, **stirring a chorus of support** from other financial experts.

Just ahead of the Budget, Altmann, Webb, industry experts, a leading charity and the TUC, among others, signed a letter to Chancellor Philip Hammond **calling on him to act urgently.**

> *"It is particularly cruel that this flaw in the system affects the lowest earners"*
>
> **Tom Selby - AJ Bell**

A probe by pension consultant Hymans Robertson earlier this year found 14 out of the 17 top master trusts use the payment system which prevents low earners from getting government top-ups, while the rest pay them to all workers.

However, one of the 14 firms, NOW:Pensions, reimburses low-paid members their lost top-ups, so they do not end up out of pocket.

Jesal Mistry, senior investment consultant at Hymans, said: 'The planned rise in the personal allowance to £12,500 may not be all good news for some of the UK's low-earners and part-time workers.

The widening gap between auto-enrolment and the income tax threshold will lead to nearly twice as many savers missing out on the pensions tax relief which they are owed.

The Government and industry urgently need to think creatively about how to address this inequality and the recent budget was an opportunity missed.

For example, we could amend the current income tax system to provide members with some form of credit or look to provide a "bonus" into their pension of the amount they should have received in tax relief.

What is clear is that the government needs to tackle it seriously and urgently. Auto enrolment minimum contributions are also set to rise to five per cent of income in 2019.

This means that crucial steps need to be taken now in order to correct a system that is currently penalising the country's lowest earners.'

What does the Government say?

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,' said a spokesperson in response to the letter to Hammond.

It previously said on the 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 6million members, operates a relief at source arrangement as do several other large schemes used for automatic enrolment.'