

PENSIONS

TAX

NEWS

Govt launches consultation into low pension tax jigsaw

By **Michael Klimes** | 21st July 2020 12:56 pm

The Treasury has launched a **consultation** on pension tax administration to address an anomaly that penalises low earners.

It comes as chancellor Rishi Sunak has announced a **comprehensive spending review** and the **Public Accounts Committee** has called the government to analyse tax relief.

Currently there are two ways to collect contributions from low income earners: relief at source and the net pay.

Under **relief at source**, basic rate tax relief is applied to a member's payments into their scheme but in net pay scheme contributions are taken from gross salary.



RE

in a:

This means a member in a net pay scheme loses some tax relief and they must actively reclaim the lost money.

Many such as former pensions minister **Ros Altmann** have criticised the different tax treatment low earners receive based on net pay.

The consultation aims to address the anomaly and goes through four potential ways to clean up the current system.

This includes mandating relief at source collection for all defined contribution pension schemes; requiring employers to provide two schemes for their employees – one net pay and one relief at source; applying a standalone charge to reconcile any differences and finally paying a bonus to members in a net pay scheme.

The government goes through the merits of each approach and the consultation ends on 13 October 2020.

In the forward to the consultation economic secretary to the Treasury John Glen writes: “The majority of saving into a pension is unaffected by which method of pensions tax relief administration their scheme uses.

“However, low earners saving in a pension may end up in differing financial positions depending on how their scheme is administered. The 2019 Conservative Party manifesto committed to a review of the options available to try to address this issue. I am pleased to present this call for evidence as the next step in delivering on this commitment.”

Reacting to the consultation launch Smart Pension director of policy Darren Philp says: “This is an important call for evidence and it is good to see that the government has delivered on its manifesto commitment to look into the issue. The current system of tax relief creates an anomaly for lower paid individuals auto-enrolled into a net pay scheme and this needs to be rectified to deliver the benefits of increased pension saving in a fair way for all.

“It is simply not fair or just that 1.7 million people are losing out through their pay packets due to a quirk in the tax system. This consultation is a positive step to addressing that issue and creating fairness across the board.”

By **Michael Klimes** | 21st July 2020 12:56 pm