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Call for evidence offers opportunity to end pension inequality for low income workers

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The Low Incomes Tax Reform Group (LITRG) has welcomed today's publication of a Call for Evidence on pensions tax relief administration,¹ describing it as a chance to finally end the injustice that means that around 1.75 million people on low incomes (mostly women) are being unfairly charged 25 per cent more for their pension contributions due to the way their employers' pensions schemes operate.

Alongside other members of the Net Pay Action Group,² LITRG has been pushing for government to find a solution to this issue for some time, with Budget representations first being made in 2018 and then again earlier this year.³

Victoria Todd, Head of LITRG, said:

"We appreciate that the coronavirus pandemic has caused significant upheaval within government, so it is extremely welcome that HM Treasury has now published the call for evidence on pensions tax relief administration promised in the Conservative Party's 2019 manifesto.⁴

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"We hope that, in considering what might be a 'proportionate' solution to the problem of an estimated 1.75 million low-income earners not currently receiving tax relief, the government will take into account that the issue disproportionately affects women (some 75% of the total).⁵

"However, we note with some concern that one of the possible solutions put forward is to remove tax relief for non-taxpayers who receive it by virtue of relief at source schemes.⁶ It is comforting that the call for evidence notes that 'the government is not minded to proceed with this approach' and we hope that this possibility will quickly be ruled out altogether. Any solution should ensure a levelling up rather than down so that existing tax relief is extended to those missing out rather than taken away from others who benefit from it.

"LITRG's proposed fix to the problem is that HMRC use data they already have, collected via the PAYE 'real-time information' system, to identify those taxpayers affected and make a payment to them equivalent to the tax relief they would have received in a relief at source scheme.³ We look forward to engaging with the call for evidence to make the case for this.

"It is time for the government to move forward and end this injustice that affects so many people on low incomes."

Notes for editors

1. HM Treasury, Pensions tax relief administration: Call for evidence
-<https://www.gov.uk/government/consultations/pensions-tax-relief-administration-call-for-evidence>

2. The members of the Net Pay Action Group are: Low Incomes Tax Reform Group, Baroness Ros Altmann, The Chartered Institute of Payroll Professionals, AgeWage, NOW: Pensions, The People's Pension, Pension and Lifetime Savings Association, The Investing and Saving Alliance, Association of British Insurers, Trades Union Congress, Age UK, Royal London, Smart Pension, The Pensions Administration Standards Association, Legal & General Investment Management, Ruston Smith

3. LITRG's 2020 Budget Representation (<https://www.litrg.org.uk/latest-news/submissions/200204-budget-representation-2020-net-pay-action-group>) sets out why many low-income workers in pension schemes operating on a 'net pay' basis miss out on tax relief on their contributions and effectively pay 25% more for their pension savings than those in otherwise equivalent circumstances who contribute to a 'relief a source' basis scheme.

4. Conservative party manifesto 2019, page 16: https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5ddag24905da587992a064ba_Conservative%202019%20Manifesto.pdf "A number of workers, disproportionately women, who earn between £10,000 and £12,500 have been missing out on pension benefits because of a loophole affecting people with net pay pension schemes. We will conduct a comprehensive review to look at how to fix this issue."

5. Latest available figures (Written Parliamentary Question HL2729: <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Lords/2020-03-18/HL2729/>) give an estimate of 1.5million people in net pay pension schemes missing out on tax relief as they are earning below the personal allowance. However, this figure is for 2017/18 when the personal allowance was £11,500 which then rose to £11,850 for 2018/19 and the £12,500 for 2019/20 (frozen too for 2020/21), so the figure may well be higher than 1.5million now. The PAC report quotes an estimate of 1.75million, with three quarters of those being women.

6. Call for evidence, suggested approach 2 – standalone charge (pages 23 & 24 of the document).

7. Low Incomes Tax Reform Group

The LITRG is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes.

The CIOT is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. The CIOT's 19,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

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