Tax loophole depriving low-paid workers of pension cash will FINALLY be fixed - but not until 2025

- **Critics have long demanded action on tax flaw which penalises the poorly paid**
- **They miss out on Government payments into pensions, while better paid do not**
- **Former Pensions Minister Ros Altmann has spearheaded the campaign**

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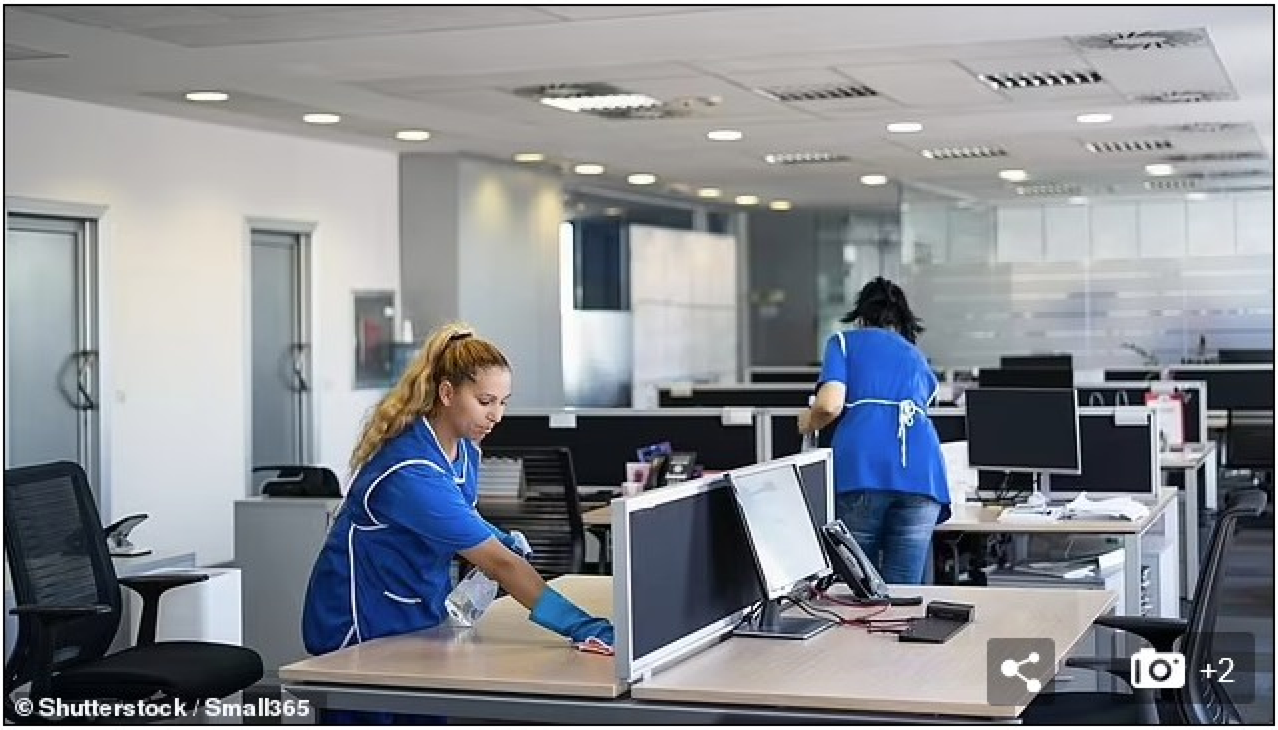
PUBLISHED: 15:41, 27 October 2021 | **UPDATED:** 16:52, 27 October 2021

The Government has promised to fix a tax quirk that deprives low-paid workers of pension cash paid to better off colleagues - but not until 2025.

Critics who had demanded action welcomed the announcement in the Autumn Budget, though one said it was 'a shame' the move would not happen sooner.

Another noted that by the time it does low earners will have lost millions of pounds due to 'years of dithering' by the Government.

The tax flaw means some poorly paid staff currently miss out on Government payments into their pension pots, depending on the type of scheme operated by their employer, a matter they have no control over.



Tax flaw: Some poorly paid staff currently lose Government payments into their pension pots

To correct this, the Government will make top-up payments directly to low-earning individuals saving into a pension scheme where they are missing out, starting in the 2025/2026 tax year.

This will cost £25million between 2025 and 2027, and the Treasury says an estimated 1.2million individuals could benefit by an average of £53 a year. However, some low paid workers lose hundreds of pounds in government pension cash a year - find out how below.

This money could eventually build into a valuable pot due to the compound effect of investing over long periods.

The Government's announcement today was a victory for the Tory party's former Pensions Minister Ros Altmann, **who has campaigned vigorously on the issue.**

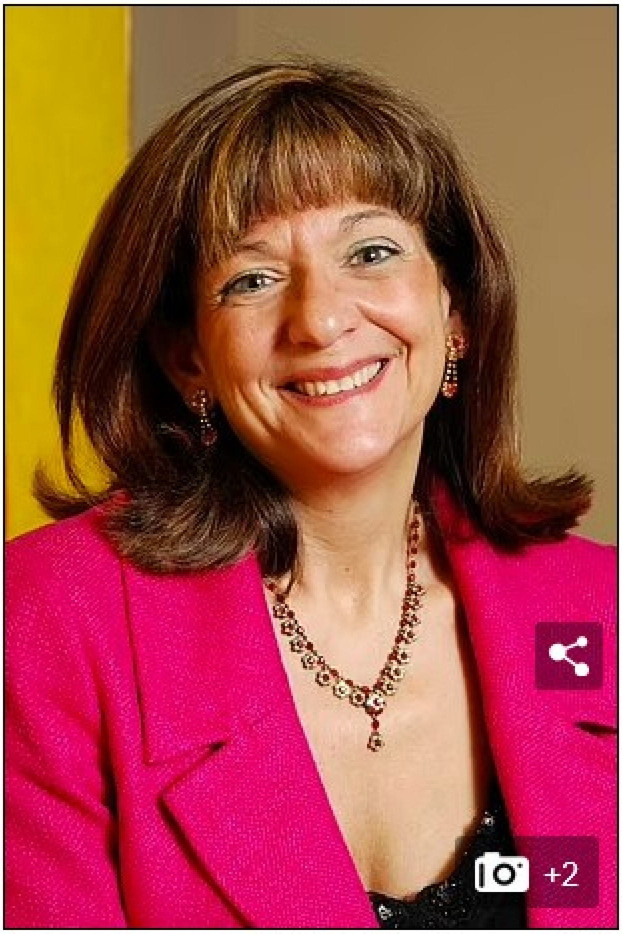
Lady Altmann said today she was delighted the Treasury will finally resolve the problem of some workers being forced to pay an extra 25 per cent for their pensions.

'I had hoped this would have been done sooner, but at last there is a commitment to change the system, which I am very pleased about,' she said.

'These low paid workers do not even know they are paying so much more for the same pension as they would receive elsewhere, just because of their employer's choice of scheme.

'It has taken five years to finally get the Government to address the problem, which affects more than a million of the lowest paid women in employment.'

The move was also welcomed by pension consultancy Hymans Robertson, which in an investigation several years ago found **14 out of the 17 top pension firms at the time used the system under which low paid workers lose out.**



Lady Altmann: 'At last there is a commitment to change the system, which I am very pleased about'

Partner Mike Ambery said: 'It is great to see the Government announcing that it's at last abolishing this inequality for low earners.

'We support every incentive for individuals to save and engage with pensions and have been calling for these technical inequalities to be eroded for many years.

'It will be very welcome news for just over a million people saving into pensions. It is just a shame that these savers will have to wait for three years for the changes to actually come into force and to be finally able to benefit.'

Jon Greer, head of retirement policy at Quilter, said: 'After much posturing, the Government has finally committed to levelling up the inherent inequality for low earners.

'However, the problem won't be fixed until tax year 2025/26 and will only include contributions made from 2024/25, meaning these low earners will have forgone millions in pensions tax relief due to years of dithering.

'By the time it is eventually fixed in 2024, almost £335million will have been lost in pension funds by 1.2million lower earners, three quarters of whom are women.'

Greer said the tax flaw means some workers earning £12,570 a year or less could retire with a pot worth thousands of pounds less than others.

'This is a lottery depending on what tax system they end up in. The Government's solution is imperfect, but at least better than the current situation, as it commits to paying a top-up contribution directly to the person's bank account.

'This means they will lose out on potential growth by not having the money held in the pension fund and also there is a risk of delay between the pension contribution being made and receiving the top-up.'

Greer added that the Government announcement suggested the payments could impact income-related benefits, such as universal credit.

Why are some low earners losing pension top-ups?

Low paid workers can miss out on hundreds of pounds of Government pension cash a year due to an obscure quirk of the tax system.

This is because it has frozen the earnings threshold at which people are automatically enrolled into pensions at £10,000. Meanwhile, the personal allowance, the level at which people start to pay tax, is currently £12,570.

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.

Give dukes and dustmen the same pension boost

Ex-Shadow Pensions Minister Gregg McClymont warned the Government to play fair on top-ups **here**.

'Low-paid workers are being failed by a pensions lottery,' TUC boss Paul Nowak told This is Money **here.**

Employers and their pension providers have two options when handling pension tax relief for staff - known in financial jargon as net pay and relief at source.

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

Net pay means workers contribute directly into their pension before their tax bill is calculated, so their pension tax relief is already included and there is no need to claim it from HMRC.

Under relief at source the pension provider claims the income tax relief directly from HMRC and adds it to each worker's pension.

This is Money's pension columnist Steve Webb explains in more detail **here.**