HM Treasury

Pensions tax relief administration:

Call for Evidence

July 2020

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Foreword

The current methods for administering pensions tax relief have evolved over time. Pensions were originally provided through workplaces, which meant tax relief on pension contributions could be made from income that had not yet been taxed. The introduction of personal pensions, however, meant another system for administering pensions tax relief was required from 1988 as pension contributions could now be made from income that had already been taxed.

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.

Any change could create challenges elsewhere, either for pension schemes, their members or the wider personal tax regime. To date, a straightforward and proportionate solution has not been identified. This call for evidence, therefore, presents the options we have considered and seeks views on our assessment of them and their impacts. I would also welcome suggestions for other possible solutions to address this issue.

I am mindful that pensions administration can only be effectively delivered through successful partnership between government, the pensions industry, employers, and professional administrators of payroll and other systems. The government therefore wants to listen to all those who work with these systems on a regular basis to understand the options available to improve the administration of pensions tax relief.

John P. Glen

JOHN GLEN MP

Economic Secretary to the Treasury

Executive summary

The government is committed to ensuring that older people are able to live with the dignity and respect they deserve. Alongside the state pension, which is the foundation of state support for older people, the government supports private pension saving by providing tax relief on pension contributions (within certain limits) so that people will have an income, or funds on which they can draw, to enjoy greater security and independence when they retire.

The government is concerned about the potential for a low-earning individual's take-home pay to be affected by the method of pensions tax relief operated by their pension scheme. The government is keen to explore this issue further to understand what deliverable options for change may exist. This call for evidence seeks to gather evidence on the operation of both the main methods of administering pensions tax relief and what improvements might be made.

Chapter 2 examines the two methods of administering pensions tax relief in detail. Chapters 3 and 4 summarise the issues highlighted by stakeholders around the operation of the relief at source method. Chapter 5 invites evidence around the impacts of these issues and views on possible solutions.

To date a proportionate and straightforward solution to address the difference in treatment for low earning pension savers has not been found. There is a balance to be struck between ensuring consistency in outcomes and ensuring simplicity for individuals. The options considered in this call for evidence all have drawbacks and would introduce significant complexity into the pensions tax regime for employers and pension schemes. Any changes would be difficult to explain to individuals and are likely to lead to greater engagement with HMRC by individuals who would otherwise have no need to contact them.

This call for evidence would welcome views on how any of these proposals could be adapted to address the discrepancy in outcomes for low earners in a way that is consistent with the government's principles for reform. Any other proposals would also be welcomed.

Chapter 1
Introduction

1.1 Pension saving becomes more important to the UK as our population ages. In the UK around 18 per cent of people were aged 65 and above in 2017, up from almost 16 per cent in 1997, and the proportion is projected to reach 24 per cent by 2037.

1.2 As a result of the government's successful introduction of automatic enrolment, more employees than ever are saving into workplace pension schemes. In 2018, 87 per cent of eligible employees were doing so, up from 55 per cent in 2012. The increase in the proportion of women, workers under 30, and those earning less than £30,000 are particularly representative of this success.

1.3 The government supports this saving by providing tax relief on pension contributions so that people will have an income, or funds on which they can draw, to enjoy greater security and independence when they retire.

1.4 Pensions tax relief operates on the basis that pension contributions (up to certain limits) should be free of income tax. Instead, funds taken from a pension scheme are subject to income tax when they are withdrawn usually after an individual has reached the Normal Minimum Pension Age (currently age 55).

1.5 There are two main ways for individuals to receive income tax relief when saving some of their earnings into a pension. These are either:

- **net pay arrangements** – an individual receives tax relief when pension contributions are taken out of their pay by their employer before tax is calculated, or
- **relief at source** – a pension scheme claims tax relief at the relevant basic rate from HM Revenue & Customs (HMRC) because individuals make pension contributions out of their earnings after tax has been calculated. Individuals who pay tax at rates higher than the basic rate can claim any extra relief directly from HMRC

1.6 The government believes that it is important that both systems operate as efficiently as possible for all stakeholders, and that the benefit of saving into a pension is clear to all pension savers.

1.7 The government is concerned about the potential for a low earning individual's take-home pay to be affected by the method of pensions tax relief operated by the pension scheme that their employer has chosen. The government is particularly keen to explore this issue further to understand what deliverable options for change may exist.

1.8 Beyond this specific issue, the government recognises that it can be complex for individuals to engage with their pensions, and understand what tax relief they are given on their contributions. This call for evidence would also welcome views on whether any of the administrative processes unnecessarily complicate wider understanding of pensions tax relief, particularly for those unlikely to have access to specialist advice or assistance to help navigate the tax system. We welcome stakeholder views on the operation of the current administrative systems of pensions tax relief and potential options for administrative change that have already been suggested to government.

About this call for evidence

1.9 This call for evidence seeks to gather evidence on the operation of both the main methods of administering pensions tax relief.

1.10 The government recognises that the two systems produce different outcomes in limited circumstances for certain groups of taxpayers, as some people may receive tax relief at a different rate to their highest marginal rate. It is important to note that many of these taxpayers will be lower earners who may not otherwise regularly have to engage with the tax system.

1.11 Thanks to interventions such as automatic enrolment, many people are saving into pensions for the first time. However, this means that there is a large cohort of new pension savers with potentially limited experience and knowledge of pensions.

1.12 As part of this call for evidence, the government would like to gather views on the appropriate balance between consistency of outcomes for individuals with similar circumstances and simplicity for individuals, employers and pension schemes.

1.13 Chapter 2 provides more detail on the two methods of administering pensions tax relief. Chapters 3 and 4 summarise specific issues with the operation of relief at source that have already been raised with HM Treasury and HMRC. Chapter 5 invites evidence about the impacts of these issues and views on possible solutions.

1.14 This call for evidence is focused on pensions tax relief administration only. The government considered the possibility of reforming pensions tax relief in the 2015 consultation 'Strengthening the incentive to save: a consultation on pensions tax relief'. Responses to this consultation provided no consensus for change and so at Budget 2016 the government announced that it would not be making fundamental reform to the pensions tax relief system. This call for evidence, therefore, does not cover the marginal rate relief structure of pensions tax relief, nor does it cover issues around the limits on pensions tax relief.

1.15 This call for evidence also does not seek views on the level of the earnings threshold for automatic enrolment, or similar aspects of automatic enrolment (or wider pensions) policy. The earnings threshold is reviewed annually by DWP and is set at a level that is determined to be appropriate having regard to the factors set out in the Pensions Act 2008.

1.16 This call for evidence applies to the whole of the United Kingdom. It will be of interest to:

- pension scheme administrators operating either the net pay or relief at source method of tax relief
- employers who enrol their employees into a pension
- individuals who receive pensions tax relief at a different rate to their marginal income tax rate
- pension professionals and tax professionals
- payroll administrators

1.17 Evidence gathered through this process will be used to inform any future changes to improve the operation of pensions tax relief administration.

Principles for changing pensions tax relief administration

1.18 This call for evidence would welcome views on what changes can be made to the existing administrative processes to improve outcomes. The government is not proposing to implement an entirely novel method of administering pensions tax relief. Rather, the government would like to understand any potential new approaches to providing pensions tax relief within the current framework.

1.19 The principles for making changes to the pensions tax relief administration systems are:

Simplicity

- Be simple for savers to understand, taking account of interactions with other systems (such as Universal Credit) which may be relevant to stakeholders
- As far as possible, outcomes for individuals with similar circumstances should be consistent and easily anticipated, and
- Be simple for schemes and employers to operate, making the most of digitisation and being compatible with the differing ways schemes communicate with their members

Deliverability

- Be flexible and able to adapt to giving relief at different income tax rates across different parts of the UK
- Where possible should seek to minimise burdens on scheme members, scheme providers and employers, and
- Provide robust, long-term, solutions that will promote stability in the system to benefit all stakeholders

Proportionality

- As is the case for all government spending, any changes must be affordable and in keeping with the overarching principles of *Managing Public Money* [1]

1.20 Any changes proposed will be assessed against these principles.

[1] https://www.gov.uk/government/publications/managing-public-money

Chapter 2

Main methods of pension tax relief administration

2.1 To ensure that there is a common understanding of the different methods of providing pensions tax relief, this chapter sets out in more detail how the two main methods of tax relief work.

Background to the current system

2.2 Additional pensions to supplement the state pension were originally provided in workplaces. Where there is a payroll relationship between employees and their employers, it is possible to use the payroll to provide pensions tax relief as the employer knows the level of pension contribution. Under a 'net pay arrangement', the pension contribution is made from pre-tax income. Income tax is then levied on their income, net of their pension contribution. This method of tax relief can only be given via the payroll, so there needs to be an employer-employee relationship. When additional pensions were only provided in the workplace, this was the only method of tax relief provided.

2.3 The introduction of personal pensions required a new method of administering tax relief in 1988. As the individual pays the money into the pension rather than an employer, it is not possible to make a payroll adjustment. Contributions to personal pensions are instead made from income that had already been taxed and the scheme can claim back basic rate tax relief from HMRC. This is known as 'relief at source'. Those whose marginal rate of tax is above the basic rate can then claim any additional relief from HMRC.

2.4 This means there are now two methods of administering pensions tax relief. Although relief at source became the default method of tax relief for all pension schemes in 2006, a scheme is free to elect to use a net pay arrangement instead. The process is simple; the scheme just needs to confirm to HMRC that it is an occupational pension scheme and that it wants to use a net pay arrangement.

2.5 While the pension scheme chooses which method of tax relief to use, employers offering workplace pensions need to consider the method used by providers when selecting their workplace pension scheme. The Pensions Regulator provides guidance for employers who are choosing a pension scheme to comply with automatic enrolment obligations. This advises that the method of tax relief the scheme operates should be considered, alongside other factors including compatibility with fees, payroll software, and investment options.[1]

[1] https://www.thepensionsregulator.gov.uk/en/employers/new-employers/im-an-employer-who-has-to-provide-a-pension/choose-a-pension-scheme/what-to-look-for-in-a-pension-scheme

2.6 Although pensions tax relief is a policy reserved to the UK government, some elements of income tax have been devolved to the Scottish and Welsh governments in recent years. Individuals will receive pensions tax relief depending on where they reside. A scheme using net pay arrangements will always provide relief at the individual's marginal rate in that nation. A scheme using relief at source will always receive relief at that nation's basic rate of income tax.

Administering pension tax relief

2.7 An individual receives tax relief on their pension contributions either because their contribution is taken out of their pay before income tax is calculated or because their pension scheme claims tax relief from HMRC on contributions made after tax has been deducted from their earnings.

Net pay arrangements – making pension contributions before income tax is deducted

2.8 The 'before tax' method of tax relief used when pension contributions are made through the payroll before tax is calculated is known as 'net pay' or a 'net pay arrangement'. This name derives from employees being taxed on their pay net of their pension contributions.

2.9 Anecdotally, the government understands some employers prefer using net pay arrangements for their workplace pension schemes as it automatically provides the correct, marginal rate relief on pension contributions. Where Scottish or Welsh rates of income tax are paid, tax relief applies automatically at the correct rates too.

2.10 When using net pay arrangements, employers must report details of each individual employee's pay and their amount of pension contributions before tax to HMRC at the same time as reporting the tax payable.

2.11 The employer pays the pension contributions to the pension scheme. Because the contributions are paid out of untaxed income, the pension scheme does not have to claim any tax relief from HMRC as it is included in the payment they receive from the employer. This means that the pension scheme can invest the full amount from the moment the contribution is received.

Relief at source – making pension contributions after income tax is deducted

2.12 The 'after tax' method of tax relief used where pension contributions are made after income tax has been calculated for employees or out of private income for individuals who are not employees, is known as "relief at source" or RAS.

2.13 Self-employed individuals and those contributing to a personal pension will currently always use schemes that operate RAS. This is because there is no employer who can deduct pension contributions from pay before income tax is applied. RAS involves an administrative simplification that allows schemes to claim pension tax relief at basic rate for all their members without knowing their individual tax position. The vast majority of UK taxpayers pay tax at the UK basic rate. Data from the Survey of Personal Incomes shows the proportion of taxpayers paying UK basic rate income tax only was 83.3 per cent in 2017-18. This means that the RAS system delivers the right amount of relief to the vast majority of savers.

2.14 Regardless of whether tax has actually been paid, or at what rate, an individual's eligible contribution to a RAS scheme is treated as if an amount equal to basic rate tax has been deducted from the contribution (or Scottish basic rate for Scottish taxpayers and Welsh basic rate for Welsh taxpayers). The scheme administrator claims this amount (the value of the relief) from HMRC and adds it to the member's pension pot.

2.15 From obtaining declarations to claiming tax relief, the RAS method of tax relief is primarily a manual, paper-based system that requires scheme administrators to claim relief for all members individually. The tax relief claim is made once a year after the end of the tax year, but pension schemes can make interim claims more regularly. For administrative ease pension schemes do not have to provide details of their members for these interim claims and can claim one combined amount from HMRC for all their members. However, the final amount has to be settled in the end of year tax relief claim.

2.16 RAS pension schemes also have to provide details of their members so that HMRC can determine whether their members are Scottish, Welsh or rest of UK taxpayers as the payroll does not automatically correct the relief given under RAS.

2.17 Although we understand the RAS method of relief works well for personal pension schemes, for scheme administrators and employers there is generally more administration involved in operating a RAS pension scheme than a net pay scheme.

Both methods deliver the same outcomes for most savers

2.18 Members of pension schemes using net pay arrangements always receive tax relief at their correct marginal rate on their pension contributions, while RAS scheme administrators can claim a fixed rate of relief at the basic rate of income tax on pension contributions. If an individual has sufficient income to pay at least basic rate income tax, then both methods of pensions tax relief give the same outcome despite different amounts being deducted from their pay as pension contributions.

Box 2.A: Tax relief for basic rate taxpayers

Alex and Sam are employees who earn more than the personal allowance and pay tax at the basic rate on their pay. Alex is a member of a pension scheme that uses net pay arrangements and Sam is a member of a pension scheme that uses the RAS method. Both want £100 to go into their own pension scheme.

Alex has the full £100 contribution deducted before the tax rules are applied to her earnings. This is how she gets her pension tax relief. Once her pension contribution is deducted the rest of her earnings are taxed. All of the £100 deducted from her earnings goes to the pension scheme.

However, Sam's earnings are taxed first and the amount over the personal allowance is taxed at the basic rate. To take account of the tax paid, the pension contribution is paid to her scheme with basic rate tax at 20% deducted from the £100 contribution. Out of £100 earnings, £20 is paid to HMRC as basic rate tax and £80 is paid to Sam's pension scheme as a contribution. Sam's pension provider then claims £20 in tax relief from HMRC so Sam will have £100 in her scheme.

Both Alex and Sam have had £100 deducted from their earnings and both have £100 in their pension scheme. In both cases there is £20 in the pension scheme which would have been paid as tax if pension contributions had not been made.

2.19 Those in RAS schemes who have a marginal income tax rate above the basic rate are able to claim the difference from HMRC. This means those who have a marginal tax rate above basic rate tax are left in the same position whichever method of tax relief is used, as shown in the diagrams below. The diagrams below show a higher rate taxpayer to give a full picture of the operational steps in providing tax relief on contributions.

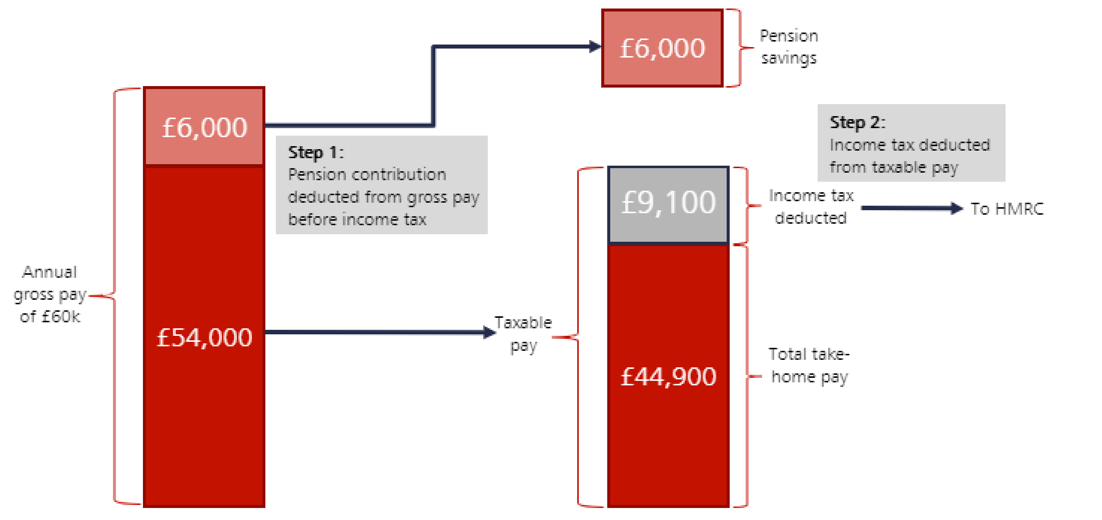

Diagram 1: Deduction of pension contribution where the pension scheme is operating Net Pay Arrangements - the person's occupational pension contribution is deducted before their pay is taxed. This ensures no income tax is paid on an individual's contributions.

Note: Figures above show simplified illustrative annual income tax position for a UK higher rate taxpayer. NICs impacts in particular are not shown.

2.20 For the majority of savers, the method of tax relief operated by their pension scheme makes no difference to the relief they are entitled to. The exception is for those whose marginal rate of income tax is below the basic rate – covered in the next chapter

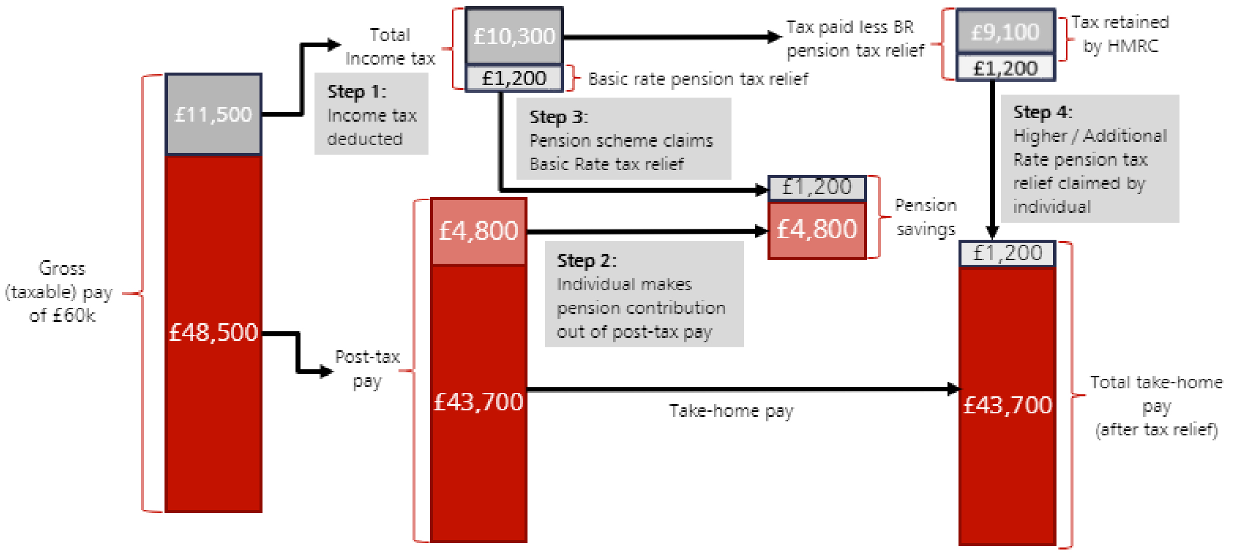

Diagram 2: **Deduction of pension contribution where the pension scheme is operating Relief at Source (RAS)** - the person's pension contributions are paid from their earnings after income tax has been applied. Pension schemes using RAS claim tax relief for all savers at the UK Basic Rate of income tax (20%).
Note: Figures above show simplified illustrative annual income tax position for a UK higher rate taxpayer. NICs impacts in particular are not shown.

Chapter 3

Differences in outcomes for some low earners

3.1 The government has committed to consider the issue of the two systems of pensions tax relief that can produce differing outcomes for some low earning savers. This chapter provides a short summary of this issue from a tax perspective.

Lower earning pension savers – impact of different methods of tax relief

3.2 Although the two methods of pensions tax relief provide the same result for those paying at least basic rate income tax, the government is aware that the two methods provide different results for people who do not pay income tax (broadly, those whose total earnings are below, at or close to the tax free personal allowance).

3.3 The RAS method of pensions tax relief assumes that contributions are made from income that has been taxed. Those in a RAS pension scheme and who do not pay tax on their take home pay (because their taxable income is below the personal allowance) still receive a payment into their pension equivalent to tax relief at the basic rate, like all other savers in RAS pension schemes. As they do not pay tax, this is effectively a government top-up paid into their pension.

3.4 Lower earners who are in a net pay scheme have their contributions taken out of their pay before tax is calculated. If their remaining pay after their pension contribution is below the personal allowance, then they do not receive the same top-up that lower earners in RAS schemes receive. The RAS scheme assumes that the individual will have paid at least basic rate tax on all of their pension contribution, whereas this individual in the net pay scheme would only have paid basic rate on part (or even none) of their pension contribution had it been taxed as income. Lower earners in a net pay scheme do not receive the top-up that lower earners in RAS schemes receive. This creates a difference in tax treatment depending on the method of tax relief used in the pension scheme of someone who does not pay income tax.

Box 3.A: Tax relief for lower earners

Alex and Sam are two employees who earn below the personal allowance. Alex is a member of a pension scheme using net pay arrangements and Sam is a member of a pension scheme using RAS. Both want £100 to go into their scheme.

Alex has the full £100 contribution deducted before the tax rules are applied to her earnings. She does not have to use any of her personal allowances in order to pay her pension contributions out of untaxed income. Once her pension contribution is deducted the rest of her earnings are taxed but there is no tax to pay. All of the £100 deducted from her earnings goes to the pension scheme.

Sam has no tax to pay on her earnings as they are below the personal allowance. The equivalent contribution is paid to her pension scheme as if she had had basic rate tax at 20% deducted from the full £100 contribution. Out of £100 earnings, £80 is paid to Sam's RAS pension scheme as a contribution. Although no tax is paid to HMRC, the RAS pension provider is still entitled to claim £20 in tax relief from HMRC so Sam will have £100 in her scheme.

Both Alex and Sam have £100 in their pension scheme. As in the previous example, Alex has had £100 deducted from her earnings but in this case Sam has had only £80 deducted from her earnings, even though they both still have £20 tax relief in their pension scheme.

Sam has more money in her pay packet but she has used up more of her personal allowance to make contributions out of her untaxed earnings.

3.5 This discrepancy arises from RAS being a simplification for both pension scheme administrators and scheme members. Scheme members do not have to provide documentation to their pension scheme about their tax affairs so that the correct marginal rate relief can be given.

3.6 Respondents may wish to note that this discrepancy this discrepancy could create consequential impacts elsewhere in other areas of government support. For example, having different levels of take-home pay could lead to different levels of benefit entitlement. This call for evidence does not consider interactions with wider areas of government support, such as Universal Credit, as these are beyond the scope of this document. However, these interactions would ultimately affect the overall benefit an individual receives from resolving the discrepancy.

3.7 Generally, the discrepancy in take-home pay disappears once individuals have incomes that exceed the personal allowance. This income may be from more than one source such as two part-time jobs, or a part-time job and income from investments.

Box 3.B: Tax relief for lower earners with two jobs

Alex and Sam are two employees who earn below the personal allowance in each of their two jobs individually but their total income exceeds the personal allowance. In one job Alex is a member of a pension scheme using net pay and in one job Sam is a member of a pension scheme using RAS. Both want £100 to go into their scheme.

As with the previous example in relation to lower earners, Alex has £100 deducted from her earnings and Sam has £80 deducted from her earnings to pay pension contributions. They have £100 in their respective pension schemes, with £20 tax relief in each scheme.

Sam has £20 more than Alex in her pay packet.

Alex's earnings from her second job are covered by her remaining personal allowance. As Sam has used up £100 of her personal allowance in her first job, the earnings for her second job exceed her personal allowance by £100.

For her second job Alex pays no tax but Sam pays £20 tax, so Alex has £20 more than Sam in her pay packet.

Overall, Alex and Sam have the same amount (£100) in their pension scheme and have the same amount in their total pay packets.

3.8 While RAS and net pay can give different take-home pay outcomes for those with incomes below the personal allowance, the net pay scheme member would have used less of the personal allowance compared to the RAS scheme member.

Box 3.C: Impact on personal allowances for lower earners with two jobs

In the 2020-21 tax year, Alex and Sam both have total gross earnings of £11,000. They each contribute £100 into their pension monthly (a total of £1,200 over the year). Both are entitled to the full personal allowance of £12,500.

Alex is in a net pay scheme, meaning her contributions are deducted from her gross pay before tax. Over the course of the year, Alex will have had £1,200 deducted from her earnings and paid into her pension.

As this deduction is made before tax is applied to her earnings, Alex will have a total of £9,800 taxable earnings. This means that she will have £2,700 of her personal allowance available to offset against other taxable income.

Sam is in a RAS scheme. Her contributions are deducted after tax has been applied to her earnings, but her pension scheme will claim a top-up equal to the basic rate of tax on these contributions.

Over the course of the year, Sam will have had £960 deducted from her pay. Her scheme will have claimed £240 from HMRC to add to these contributions so that there will be a total of £1,200 in her pension.

Sam's total taxable earnings are £11,000. This means that she will have £1,500 of her personal allowance available to offset against other taxable income.

Overall, Alex and Sam have contributed the same amount (£1,200) to their pension scheme. They have differing amounts of take-home pay (£9,800 and £10,040 respectively) and also personal allowances available to offset against other taxable income (£2,700 and £1,500 respectively). The difference in personal allowances could be worth up to £240 for Alex.

It should be noted that their positions would align if they both received additional taxable income that took their total income above the value of the personal allowance.

3.9 This discrepancy in outcomes has led to some calls to reform the system so that the 1.5m lower earners in net pay schemes[1] have the same outcomes as the 1.3m lower earners in RAS schemes[2]. A variety of different solutions have been put forward to remedy this issue; these will be examined further in Chapter 5.

1 Individuals who are members of net pay schemes with taxable income below the personal allowance.

2 Individuals who are members of relief at source schemes with earnings below the personal allowance.

Chapter 4
Other issues raised by stakeholders

4.1 Other pensions tax relief administration issues have been identified in the course of work seeking to address the potential for differences in outcomes for low earners. These are summarised in this chapter. The government believes that these may have an impact on savers' experience of the tax system, and would like to consider how these could be addressed.

4.2 The government considers that any administrative changes should be sustainable, long-term reforms that provide stakeholders with confidence and certainty when dealing with the system. This means any changes need to be enduring, and not create further unintended consequences. As such, any changes need to be considered in the round alongside and within the wider context of pensions tax relief administration.

4.3 Any proposals to address these issues must pass the same principles for reforms set out in Chapter 1.

Impacts of different income tax rates across the UK

4.4 While pensions tax relief is a policy reserved to the UK government, the government has legislated in recent years to devolve some income tax powers to the Scottish and Welsh governments. Since 2017, the Scottish government has had powers to vary income tax rates and thresholds for non-savings, non-dividend income. Since April 2019, the Welsh government has had the power to set rates of income tax on non-savings, non-dividend income, within ±10% of the UK government rates. It is possible that there may be more income tax rates throughout the UK, leading to more individuals paying income tax at a rate other than the UK basic rate of 20%.

4.5 HMRC has worked with the pensions industry so that pension scheme administrators can continue to claim RAS relief at the relevant basic rate for all taxpayers. This includes those who pay no income tax at all or whose tax rate is below the basic rate (for example those paying the starter rate of income tax in Scotland). Taxpayers liable to tax at rates above 20%, such as higher and additional rate taxpayers and Scottish intermediate rate taxpayers, can claim any extra tax relief from HMRC. Scottish starter rate taxpayers, whose highest rate of tax is 19%, benefit from an extra 1 percentage point of relief.

4.6 Similar to the issue for low earners as outlined above, Scottish savers in net pay schemes will automatically receive tax relief at their marginal rate. This means that 19% starter rate taxpayers will receive slightly differing amounts of tax relief or equivalent top up depending on whether their pension scheme operates net pay or RAS, although the potential difference in outcome is lower than that between non-taxpayers and basic rate taxpayers.

4.7 Options which address the low earner issue could also provide more flexibility within the system to take account of different tax rates and thresholds across the UK. These options are discussed in the next chapter.

RAS – need to collect declarations

4.8 Although the RAS system aims to provide the same outcome as the net pay method for most taxpayers, the administration between the two methods is quite different. One of the main administrative differences is the need to collect declarations under RAS from (or on behalf of) those automatically enrolled into workplace pension schemes. The system of declarations remains one of the main features of the RAS system.

4.9 A personal pension scheme does not have access to an individual's tax information, so before claiming relief it must obtain a declaration from members that they won't contribute more than they will be entitled to relief on and that they will tell the scheme if they are no longer entitled to relief. Currently, under the RAS system, an individual is entitled to tax relief on their pension contributions up to the higher of:

- their UK earnings chargeable to income tax, or
- £3,600

4.10 The declaration confirms that an individual:

- is entitled to receive pensions tax relief, and
- will notify their pension scheme administrator if their position changes

4.11 The only occasion where the member does not have to provide a declaration upfront is where the individual is enrolled into a workplace pension scheme. In that case the employer provides the information and the scheme administrator makes the declarations on the member's behalf. The scheme administrator sends a copy of the declaration to the member and, if the individual does not make any corrections within 30 days, tax relief applies from the date the copy declaration was sent.

4.12 This declaration by the individual is not needed in net pay arrangements, as their pension contribution cannot be higher than their earnings.

4.13 As noted previously, a declaration must be completed before contributions are made (or, in the case of automatic enrolment, before relief is claimed).

4.14 Individuals must make a declaration every time they join a pension scheme that operates RAS, even if, for example, the reason for joining a new pension scheme is that their employer has moved all employees to a new pension scheme.

4.15 If the declarations are not in place, then tax relief is not due. This call for evidence covers whether the declarations regime could be simplified.

RAS – information in paper-based system

4.16 When RAS was introduced in 1988 it was not unusual for tax relief claims to be made on paper forms. The current rules still require declarations and relief claim forms to include a physical signature (although there were some temporary relaxations as a result of the 2020 Coronavirus pandemic[3]).

4.17 Other information to support claims must also be submitted on paper. Pension schemes provide HMRC with information for a variety of reasons, such as when making annual claims for relief and to confirm the details of their members. Although pension schemes claim RAS relief once a year, they can make interim claims as frequently as monthly. For valid reasons (e.g. as employer records are updated or as individuals make additional contributions), these monthly claims may need to be adjusted. HMRC has been told that administrative difficulties can arise because these interim claims do not provide details of the individual members although all claims and repayment of claims have to be assigned to the right individual meaning that pension providers can spend a great deal of time matching the tax relief claims and repayments to the member in question.

4.18 Since the wide-ranging changes made to the pensions tax relief system in 2006, the majority of pension schemes' interactions with HMRC have been through an online system. However, claims for RAS must still be submitted on paper. Processing these paper-based claims adds additional time compared to online processes.

4.19 The government is interested in how the information requirements for RAS schemes fit with pensions industry, employer and individual processes in 2020 and any areas for improvement in relevant processes.

[3] See https://www.gov.uk/government/publications/pension-schemes-newsletter-118-march-2020/pension-schemes-newsletter-118-march-2020#temporary-changes-to-pension-processes-as-a-result-of-coronavirus-covid-19

Chapter 5

Stakeholder suggestions to change pensions tax relief administration

5.1 This document aims to gather evidence to inform any future changes to the pensions tax relief administration regime, so that it can continue to operate fairly and effectively for all stakeholders – individuals, employers, pension schemes, and HMRC. This chapter sets out some suggested approaches to tackling the challenges identified in the previous two chapters, and also sets out the government's initial views on these. As noted previously, the government is keen to explore solutions that would improve the systems of pensions tax relief administration more broadly.

5.2 The government is approaching this with an open mind, but any changes must align with the principles set out in Chapter 1. Evidence on how any suggested changes may improve outcomes or experiences of the pensions tax relief administrative processes for low earners would be particularly welcomed.

Pensions schemes' choice of tax relief

5.3 Having two different systems for operating pensions tax relief means pensions schemes need to choose which one to use. The government would like to understand the reasons why particular pension schemes have chosen to use either net pay or RAS, and how they engage employers on this issue. For example, many master trusts set up to provide pensions complying with automatic enrolment have chosen to use RAS instead of net pay.

Question 1: What are the factors that influence a pension scheme in its choice between using net pay or RAS for their members?

Question 2: How do pensions providers currently engage with employers around the differences between net pay and RAS for their employees? Is the method of tax relief a scheme operates a relevant factor in the employer's decision (either directly, e.g. when considering employees' financial positions, or indirectly, e.g. through an impact on provider fees)?

Addressing differences in outcomes

5.4 The starting principle of income tax relief on pension contributions is that they should be free of income tax (subject to certain limits). However, some saving in a RAS scheme will get a top-up which is more generous than this.

5.5 Neither the pensions system nor pensions tax relief are intended to be vehicles for redistributing tax revenues at rates other than individuals' relevant marginal tax rates. Gift aid operates in a very similar way to RAS pensions tax relief. However, where an individual does not pay enough tax to cover the gift aid tax relief, they may be subject to an income tax charge through the self-assessment system, or via an addition to their PAYE code.

5.6 To completely align the tax treatment for those contributing to pension schemes with the same incomes but using different methods of tax relief would require a number of steps. In addition to considering what the individual has saved in the scheme, it would be necessary to consider both the amount individuals receive in their pay packet and the amount of personal allowance available after the tax on their earnings have been calculated.

5.7 In addition, this alignment would need to be unwound if, for example, income increased due to a backdated bonus, to ensure that no discrepancies arise in the amount of pensions tax relief or personal allowance that those currently paying a higher rate of income tax are entitled to.

5.8 The government is grateful for suggestions that have already been made by stakeholders about how the difference in outcomes can be addressed. Four main approaches have been considered:

1. paying a bonus based on Real Time Information (RTI) data
2. a standalone charge on RAS schemes
3. employers operating multiple schemes
4. mandating the use of RAS for defined contribution schemes

5.9 This section assesses each of these approaches against the government's principles for reform, as well as whether they help to equalise outcomes.

Suggested approach 1 – paying a bonus using RTI data

5.10 Some commentators have suggested that HMRC pay a bonus to lower earning pension contributors whose employers use the net pay method of tax relief. The purpose of the bonus would be to put them in the same position as lower earners who are members of RAS pension schemes.

5.11 At present, employers report both the pay and pension contributions of their employees who are members of net pay pension schemes under the Pay As You Earn (PAYE) RTI system. The reported information is used to adjust an individual's tax position during the tax year, meaning that fewer adjustments are needed after the end of the tax year when HMRC calculates whether an individual has under or overpaid tax on their total income.

5.12 Under this proposal HMRC would use the current end of year process to identify those who contribute to a net pay pension scheme and have total income below the personal allowance.

5.13 HMRC would provide those individuals with a payment equal to the basic rate of tax on their contributions. This would be the same amount as employers calculate as being paid in respect of pension contributions made by employees who are members of RAS pension schemes.

Initial government view

5.14 The government recognises that this proposal aims to deal directly in resolving the difference in outcomes for lower earners. However, it would introduce additional complexity for members, pensions schemes and HMRC. There would also be a sizeable time lag between the pension contribution being made and receiving the bonus.

5.15 This approach would require significant and costly administrative changes for savers, employers, pension schemes and HMRC:

- Net pay scheme administrators would have to report their membership to HMRC so that potential bonus recipients can be identified. While RAS scheme administrators already do this now, this would be a new process for net pay schemes with associated systems and process changes. Consequential amendments to employment contracts may also be required to facilitate sharing of this information
- At the end of the tax year, HMRC would undertake the reconciliation process. To achieve full alignment between those in RAS schemes and those in net pay schemes, members of net pay schemes would have to have their personal allowance reduced to reflect the higher personal allowance that they have after making the same contributions as the RAS pension scheme contributor. Low earners in net pay schemes would, therefore, receive an end of year reconciliation notice which adjusts their personal allowance (with consequential tax charges) to reflect the bonus
- After the reconciliation process ends, an individual could then be notified that they can submit a claim to HMRC for their bonus. A claim is necessary as HMRC would need to pay the bonus. HMRC would not have payment details for these individuals so a secure BAC payment could not be made automatically
- A new payment system would be required to pay the bonus. Adjusting the tax code would not work as it would result in further personal allowances, which would remain unused. As the bonus would be payable to those who are not paying tax, it would not be a repayment of tax, nor a repayable tax credit either. Therefore, current systems could not be used to pay the bonuses

5.16 These additional processes mean there will be a significant delay between the pension contribution being made and the adjustment to take-home pay. For example, for the tax year that runs 6 April 2019 to 5 April 2020, revised calculations under the reconciliation process would normally be complete by the end of December 2020. However, using the PAYE and RTI systems to identify those affected and administer these changes is likely to introduce over one million new actions not previously factored into the system. This significant increase in the numbers of people receiving a revised calculation would increase the time taken to complete the reconciliation process. After the reconciliation process, the bonus would still need to be claimed and then paid, leading to the significant time lag between contribution and bonus.

5.17 There would be complex issues to address in designing the bonus, for example how it interacts with the existing tax and benefits systems.

5.18 Low earners in net pay schemes do not currently see changes in their personal allowance as part of the end of year reconciliation process. Depending on the individual's particular circumstances, receipt of a "top-up" for those in net pay schemes could lead to a payment of tax or even a restriction of benefits, reducing the value of the top-up to the individual.

5.19 Interactions with other systems of government support for low earners are not considered in detail in this document. However, the government believes that tax adjustments as part of the end of year reconciliation could be a major complication that may be difficult to explain and therefore adversely affect the ability for some individuals to plan and budget.

5.20 This proposal does not meet the government's principles for change. It also creates disproportionate burdens on both pension scheme members and pension scheme administrators, with additional complexities to consider around interactions with other systems. Therefore, the government is not minded to proceed with this proposal as currently understood. However, we would welcome views on whether changes could be made to make this approach consistent with the principles for change.

Question 3: Are there ways that this approach could be delivered that would not engage the issues identified above, namely the challenges in ensuring consistency across all taxpayers for all aspects of the tax system in a timely fashion, and additional burdens for scheme members and scheme administrators?

Suggested approach 2 – standalone charge

5.21 Another approach that has been suggested is for HMRC to apply a stand-alone charge to recover the top-up given under the RAS method of tax relief where tax is not paid. This reflects that the anomaly only arises for taxpayers who are members of RAS scheme and whose highest marginal income tax rate is below the UK basic rate.

5.22 Employers would have to provide scheme administrators with additional details about each RAS saver, potentially including earnings from that employment. The administrator would then provide this information to HMRC when it makes its annual information report of its members. This is to ensure that HMRC could identify the relevant individuals through matching the reported information with data submitted to the PAYE and RTI systems. HMRC would then carry out a specific end of tax year reconciliation process for these lower earners.

5.23 HMRC would calculate how much RAS savers with total earnings under the personal allowance would have paid in basic rate tax in relation to their contributions. This would apply to low earners with income at or below the level of the personal allowance. These individuals would then either be subject to the stand-alone tax charge equal to this amount or the amount could be reclaimed from the pension scheme.

Initial government views

5.24 This approach would mean taking money from some of those on lower incomes who are saving for their retirement. It would increase administrative burdens on employers and RAS scheme administrators. Further, it would not, by itself, equalise outcomes as a RAS saver would still have a lower personal allowance than a member of a net pay scheme.

5.25 Employers and RAS scheme administrators would face additional burdens in gathering and then passing on information to HMRC. Without this information, HMRC would not be able to calculate the additional charge. Again, gathering and sharing this information may require updates to contracts in relation to data protection and data sharing obligations. Employers may also need to review contracts to ensure that they and employees are aware of the effects of any new charge.

5.26 At the end of the tax year, HMRC would undertake the reconciliation process. There would be over one million individuals for whom checks would need to be made. To achieve full alignment, individuals' personal allowances would need to be increased by adjusting their tax codes (though, as now, there would be no compensation for any unused personal allowance). This would reflect the additional personal allowances the net pay individual has after making the same contributions as the RAS contributor. This would be a significant change in tax policy – the personal allowance is not a repayable tax credit but rather a band in which income is not taxed.

5.27 This proposal, in its current form, does not meet the government's principles for change. It also removes the current bonus that some low earners currently receive. It does not ensure equal personal allowances for those in RAS and net pay schemes. It also creates disproportionate burdens on both pension scheme administrators and employers. Therefore, the government is not minded to proceed with this approach.

Question 4: We would welcome views on whether equalising outcomes by removing the top-up for non-taxpayers would represent a fair solution to this issue? If possible, it would be useful to understand the impacts on schemes and providers from any such change.

Suggested approach 3 – employers operate multiple schemes

5.28 The third possible approach to remove the difference in tax treatment for lower earners is one which requires employers to provide two schemes for their employees – one net pay and one RAS. Employers would switch employee contributions between schemes depending on whether their earnings would take them over the (pro-rata) personal allowance for that pay period.

5.29 This method is intended to enable low-earning employees to benefit from the top-up that RAS provides for those periods where their pay would take them below the personal allowance, but ensure that higher earners automatically receive the full tax relief on contributions into their net pay pension.

Initial government views

5.30 This approach relies entirely on the employer operating within existing rules, so minimal tax legislative changes would be required.

5.31 However, the administrative requirements of this solution are likely to only make it feasible for large employers with a relatively high proportion of low-earning employees. As such, this is only appropriate for a small proportion of employers who could already implement such an arrangement.

5.32 This approach requires close working between the employer and their payroll and pension providers to set up the necessary systems to automate the "switching" process. However, it has been suggested that once the initial implementation has been completed the additional ongoing maintenance required could be in line with existing burdens. The government would welcome evidence relating to the costs of this approach (including pension scheme operator fees and payroll costs) to assist in its evaluation.

5.33 Currently, individuals who are higher or additional rate taxpayers can contact HMRC to claim additional relief due on contributions to a RAS pension scheme online, via a telephone call, or in writing. HMRC will refund tax overpaid in prior tax years (within the statutory time limits). Where they are notified of pension contributions in a current tax year, an individual's coding notice may be amended to provide marginal rate relief automatically. It seems likely that this approach would significantly increase the potential need for multiple in-year adjustments to be made to tax codes of individuals in scope.

5.34 Further, the government is not convinced that this would fully resolve the potential for different outcomes. For example, someone could reduce their working hours part way through the year so their total annual earnings fall below the personal allowance. Assuming equal investment returns and costs associated with the scheme, this individual would have been better off in a RAS scheme (although it would not have been clear this was the case at the outset of the year).

5.35 This solution also appears to introduce a significant additional level of complexity for employees and potentially employers. It is not clear that this would support the government's ambition of driving engagement with pension saving.

5.36 The government is not currently convinced of the case to mandate this approach for all employers but employers could voluntarily adopt a similar approach. The government would welcome evidence from employers or providers on the potential administrative burdens and costs, to build understanding of whether this is an option that could be of wider interest.

Question 5: We would welcome views on whether this approach would:

- reliably mitigate the potential difference in outcome for low earners on a consistent basis
- be a deliverable, affordable and proportionate solution for small employers with a high proportion of low-earning employees
- be appropriate for low earners who are members of defined benefit pension schemes

Suggested approach 4 – mandate use of RAS for defined contribution pension schemes

5.37 A more radical approach to address the issue of difference in outcomes for low earners would involve requiring all defined contribution (DC) schemes to operate RAS. This would ensure all low earners receive the top-up on their pension savings.

5.38 Different versions of this proposal include requiring:

- all employers with low-earning employees to use RAS DC pension schemes
- all new DC schemes to use RAS (and removing the option to apply to operate net pay)
- all DC pension schemes move to RAS arrangements – this option would create a single standard method of tax relief across all DC pensions

Initial government views

5.39 The government understands that requiring all DC schemes to transfer to RAS would be a significant change for providers who currently operate net pay. This could require systems changes for some providers.

5.40 However, it does have the strong attraction of introducing a single method of tax relief for some or all DC savers (if all DC schemes are required to use RAS). This could remove the need for employers to consider the operation of tax relief when choosing a pension scheme for their employees. This could also address the differences in outcomes experienced by those who have a marginal tax rate below the basic rate without having to construct complex methods of establishing a legal entitlement to further top-ups nor additional processes to pay such amounts.

5.41 This approach would introduce additional burdens on those with a marginal rate of tax above the basic rate, as those contributing to DC schemes would be required to claim any additional tax relief to which they are entitled.

5.42 The government recognises that there would be many changes required to scheme and payroll processes. There may also be a need for employers to review employment contracts to fully understand the impacts for their employees. Evidence on the changes required, and steps that government could take to mitigate any negative effects would be welcomed.

Question 6: What would be the impacts on schemes and providers of requiring all DC schemes to use RAS? Would this represent a proportionate decision, given potential benefits to some employees and employers?

5.43 Requiring all new DC schemes to operate RAS would require less change from current providers. However, it does not address the issue of differences in outcomes being experienced by low earners, as some would continue to be enrolled in net pay schemes.

Question 7: Would requiring all new providers of DC pensions to operate RAS represent a fair solution to this issue? The government would welcome views on the longer-term implications of such a requirement, for example whether this would result in existing schemes re-evaluating their arrangements.

5.44 While it would be technically possible for defined benefit (DB) schemes to operate RAS, the government expects that it would be challenging for DB schemes given their differing economic and cashflow requirements. There could be adverse impacts on the funding of some schemes (depending on the employees' contracts and income levels). However, views on this from stakeholders would be welcomed.

Question 8: Views on whether there would be any benefit in extending RAS to all DB schemes as well as DC schemes would be welcomed. Alternatively, the government is interested in collecting evidence on challenges that prohibit such an approach.

Submission of further ideas

5.45 The government is grateful for the suggestions that have been made by stakeholders on how the RAS regime could be changed to equalise outcomes between lower earners in RAS pension schemes and those in net pay schemes. The government has carefully considered all the proposals received.

5.46 However, the government would welcome any alternative suggestions as to how outcomes could be fully equalised in keeping with the government's principles for any changes.

Question 9: What changes could be made to the current methods of pensions tax relief that would ensure consistency in outcomes for taxpayers across all aspects of the tax system? If possible, please provide evidence as to how these could be delivered in a proportionate manner by all relevant stakeholders.

Question 10: Alternatively, is there a balance to be struck in ensuring consistency in outcomes as far as possible, but prioritising simplicity for individuals? Is there evidence that would support this approach as more likely to build trust and engagement with the pensions system?

Improving the administration of RAS

5.47 As set out in Chapter 4, stakeholders have raised issues beyond the discrepancy in outcomes for low earners.

5.48 Members of RAS schemes who are paying tax at a marginal tax rate above the UK basic rate have to claim the additional relief they are entitled to. Some of the options outlined above could be adapted to streamline the process of claiming this relief above the UK basic rate. Views on any other options for changes to existing processes that would ensure taxpayers who pay tax at a rate above the UK basic rate receive the correct rate of tax relief would be welcomed.

5.49 Stakeholders have also informed us that the operation of the RAS system makes it more costly for employers, pension schemes, and other service providers to deal with compared to those operating net pay arrangements. The government would welcome evidence on the extent of these burdens. We are also interested in any evidence that respondents can share that shows how these costs are distributed between individuals, employers, and pension schemes.

Question 11: The government would welcome any evidence on whether the RAS system of pensions tax relief administration creates significant additional burdens as compared to net pay, as well as setting out what those burdens are, suggestions for any changes that could be made to ease such issues. In particular, the government would welcome thoughts on the following themes:

- **whether the current system of declarations causes difficulty in claiming tax relief**
- **any suggestions for practical ways that the earnings limit could be confirmed that would benefit the individual pension scheme member, and**
- **potential operational changes needed to support a requirement for interim claims to provide relevant details of individual members**

5.50 RAS is a system based on declarations. The government is interested to gather views on the requirements around collection and retention of declarations, and whether these remain the best way of ensuring that pension tax relief is only paid to eligible taxpayers. The declarations process increases the administrative burdens on pension schemes operating RAS.

5.51 However, the current arrangements for RAS may support schemes or savers who are not as digitally advanced and may be heavily reliant on existing processes. The government also recognises that there is a cost to change. The government would therefore welcome views on the merits in continuing with the current system, or the direction for any wider reforms of RAS that would improve member outcomes.

Question 12: The government would welcome views on whether there are operational changes that could be made to improve the operation of the RAS system and improve member outcomes. Is there evidence that current processes can help to support some employers or pension schemes; or does the paper-based nature of the RAS system create any obstacles in the process for claiming tax relief?

Chapter 6

Next steps

Responding to this call for evidence

6.1 The government would welcome responses to this call for evidence by 11pm on 13 October 2020.

6.2 Responses can be sent to:

Pensions and Savings Team

HM Treasury

1 Horse Guards Road

London

SW1A 2HQ

Pensionstaxreliefadministrationcfe@hmtreasury.gov.uk

Data protection notice

HMT consultations – processing of personal data

6.3 This notice sets out how we will use your personal data for the purposes of this call for evidence and explains your rights under the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA).

Your data (Data Subject Categories)

6.4 The personal information relates to members of the public, parliamentarians, and representatives of organisations or companies.

The data we collect (Data Categories)

6.5 For the purposes of the GDPR, we will process the information that you include in your correspondence, which may include your name, address, email address, phone number, job title, and employer of the correspondent, in addition to your opinions on the consultation. It is possible that respondents may volunteer additional identifying information about themselves or third parties.

Purpose

6.6 The personal information is processed for the purpose of obtaining the opinions of members of the public and representatives of organisations and companies, about departmental policies, proposals, or generally to obtain public opinion data on an issue of public interest.

Legal basis of processing

6.7 The processing is necessary for the performance of a task carried out in the public interest or in the exercise of official authority vested in the HM Treasury. The task is consulting on departmental policies or proposals, or obtaining opinion data, in order to develop good effective policies.

Who we share your responses with (Recipients)

6.8 Information provided in response to a consultation may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004 (EIR).

6.9 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential.

6.10 If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

6.11 An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.

6.12 Where someone submits special category personal data or personal data about third parties, we will endeavour to delete that data before publication takes place.

6.13 Where information about respondents is not published, it may be shared with officials within other public bodies involved in this consultation process to assist us in developing the policies to which it relates.

6.14 As the personal information is stored on our IT infrastructure, it will be accessible to our IT contractor NTT. NTT will only process this data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we will hold your data (Retention)

6.15 Personal information in responses to consultations will generally be published and therefore retained indefinitely as a historic record under the Public Records Act 1958.

6.16 Personal information in responses that is not published will be retained for three calendar years after the consultation has concluded.

Special data categories

6.17 Any of the categories of special category data may be processed if such data is volunteered by the respondent.

Basis for processing special category data

6.18 Where special category data is volunteered by you (the data subject), the legal basis relied upon for processing it is: The processing is necessary for reasons of substantial public interest for the exercise of a function of the Crown, a Minister of the Crown, or a government department.

6.19 This function is consulting on departmental policies or proposals, or obtaining opinion data, to develop good effective policies.

Your rights

6.20 You have the right to request information about how your personal data are processed, and to request a copy of that personal data

6.21 You have the right to request that any inaccuracies in your personal data are rectified without delay

6.22 You have the right to request that your personal data are erased if there is no longer a justification for them to be processed

6.23 You have the right in certain circumstances (for example, where accuracy is contested) to request that the processing of your personal data is restricted

6.24 You have the right to object to the processing of your personal data where it is processed for direct marketing purposes

Complaints

6.25 If you have any concerns about the use of your personal data, please contact us via this mailbox: privacy@hmtreasury.gov.uk

6.26 If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner, who is an independent regulator. The Information Commissioner can be contacted at:

Information Commissioner's Office

Wycliffe House

Water Lane

Wilmslow

Cheshire

SK9 5AF

0303 123 1113

casework@ico.org.uk

6.27 Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

Contact details

6.28 The data controller for your personal data is HM Treasury. The contact details for the data controller are:

HM Treasury

1 Horse Guards Road

London

SW1A 2HQ

020 7270 5000

public.enquiries@hmtreasury.gov.uk

6.29 The contact details for the data controller's Data Protection Officer (DPO) are:

DPO

1 Horse Guards Road

London

SW1A 2HQ

London

privacy@hmtreasury.gov.uk

Consultation principles

6.30 This consultation is being run in accordance with the government's consultation principles. The government will be consulting for approximately 12 weeks.

Annex A
List of questions

1. What are the factors that influence a pension scheme in its choice between using net pay or RAS for their members?

2. How do pensions providers currently engage with employers around the differences between net pay and RAS for their employees? Is the method of tax relief a scheme operates a relevant factor in the employer's decision (either directly, e.g. when considering employees' financial positions, or indirectly, e.g. through an impact on provider fees)?

3. Are there ways that this approach [paying a bonus using RTI data] could be delivered that would not engage the issues identified above, namely the challenges in ensuring consistency across all taxpayers for all aspects of the tax system in a timely fashion, and additional burdens for scheme members and scheme administrators?

4. We would welcome views on whether equalising outcomes by removing the top-up for non-taxpayers would represent a fair solution to this issue? If possible, it would be useful to understand the impacts on schemes and providers from any such change.

5. We would welcome views on whether this approach [employers operating multiple schemes] would:

   - reliably mitigate the potential difference in outcome for low earners on a consistent basis

   - be a deliverable, affordable and proportionate solution for small employers with a high proportion of low-earning employees

   - be appropriate for low earners who are members of defined benefit pension schemes

6. What would be the impacts on schemes and providers of requiring all DC schemes to use RAS? Would this represent a proportionate decision, given potential benefits to some employees and employers?

7. Would requiring all new providers of DC pensions to operate RAS represent a fair solution to this issue? The government would welcome views on the longer-term implications of such a requirement, for example whether this would result in existing schemes re-evaluating their arrangements.

8. Views on whether there would be any benefit in extending RAS to all DB schemes as well as DC schemes would be welcomed. Alternatively, the

government is interested to collect evidence on challenges that prohibit such an approach.

9. What changes could be made to the current methods of pensions tax relief that would ensure consistency in outcomes for taxpayers across all aspects of the tax system? If possible, please provide evidence as to how these could be delivered in a proportionate manner by all relevant stakeholders.

10. Alternatively, is there a balance to be struck in ensuring consistency in outcomes as far as possible, but prioritising simplicity for individuals? Is there evidence that would support this approach as more likely to build trust and engagement with the pensions system?

11. The government would welcome any evidence on whether the RAS system of pensions tax relief administration creates significant additional burdens as compared to net pay, as well as setting out what those burdens are, suggestions for any changes that could be made to ease such issues. In particular, the government would welcome thoughts on the following themes:

    - whether the current system of declarations causes difficulty in claiming tax relief
    - any suggestions for practical ways that the earnings limit could be confirmed that would benefit the individual pension scheme member, and
    - potential operational changes needed to support a requirement for interim claims to provide relevant details of individual members

12. The government would welcome views on whether there are operational changes that could be made to improve the operation of the RAS system and improve member outcomes. Is there evidence that current processes can help to support some employers or pension schemes; or does the paper-based nature of the RAS system create any obstacles in the process for claiming tax relief?

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk