



**For the attention of:
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PENSIONS TAX RELIEF ADMINISTRATION: CALL FOR EVIDENCE

Overview

We are pleased to respond to this Call for Evidence. We have the following general comments.

- A. We support the principles noted for evaluation set out in paragraph 1.19 of the Call for Evidence as laudable but note that the current pensions tax regime is often not governed by the desire for simplicity as much as would be preferred. It is important to recognise that change costs money (which in the DC world is borne by members) and is disruptive. It should only be embraced once a clear benefit is evidenced.
- B. For reasons we set out we believe that it is important that employers are able to continue using the net pay arrangement for providing tax relief. Should a policy change be necessary, we feel strongly that the suggested approach 1, paying a bonus using RTI data, has more to commend it than the Call recognises, and we believe that is the right solution to go forward with. We recognise that there may be a significant delay.
- C. We believe that employers offering occupational pension schemes will generally opt for net pay over RAS because, as the Government recognises, it automatically – and immediately - provides the correct, marginal rate relief on pension contributions. It is also cheaper for the scheme to operate, which translates into lower costs for the sponsoring employer compared with RAS. There are no apparent direct advantages for an employer to opt instead for RAS, (though there are advantages for low earning employees).
- D. The Call for Evidence asserts that the Government “is approaching this with an open mind” which we support, and we urge against any potential preference for the most radical of the four proposals considered, i.e. mandating the use of RAS for all DC schemes. We have serious concerns about that proposal in terms of its cost and unintended effects on the pensions market. We urge caution before embracing radical change.

We would welcome the opportunity to discuss our comments further with you should that be helpful.

Detailed response

Q1. What are the factors that influence a pension scheme in its choice between using net pay or RAS for their members?

The most significant determinant of whether a pension scheme operates the net pay arrangement or RAS is historic tax legislation that stipulated how tax relief is given for specific types of pension scheme, and linked to this point, when the scheme was established. Personal pension schemes do not have a choice in the method of tax relief; they have to use RAS and it should not be assumed that were they to be granted a choice in the matter that they would automatically choose RAS over the net pay arrangement.

Although occupational pension schemes can now choose which of these approaches to use for a specific employer, this was not the case historically. Occupational pension schemes established before 6 April 2006 were compelled to use the net pay arrangement and few, if any, of those schemes will have changed methodologies since.

A powerful factor in occupational schemes choosing and continuing to use the net pay arrangement is that, unless their membership has shifted significantly towards those earning below the personal allowance, they would have no reason to do otherwise. The net pay arrangement is simple to operate, requires no intervention or paper-based reporting and efficiently delivers marginal rate relief at source (unlike RAS).

It is only recently that this issue of non-taxpayers being worse off in a net pay arrangement scheme compared with a RAS scheme has affected a material number of individuals. In the past only very-low incomes escaped income tax and those on such incomes did not usually join pension schemes. The change has arisen through a combination of lower earners being brought into pension provision (i.e. through the introduction of automatic enrolment from 2012 and exacerbated once the earnings threshold for automatic enrolment separated from and fell below the income tax personal allowance) and the significant increases in the personal allowance (under the coalition and subsequent Conservative governments).

Pension providers are in a market for business and so will look at what their customers and sponsoring employers require in a product (discussed in the next question) combined with what will be most cost-efficient for them. RAS by virtue of its administrative requirements is not attractive for many master trusts due to both its administrative overhead and the question of whether to pre-fund tax relief while waiting for HMRC to make RAS payments (which only large insurance companies may be willing to do).

Indeed, the significant cost of changing systems and processes to accommodate a switch to RAS far outweighs the gain to the small proportion of members who would be likely to benefit, and this makes RAS not at all viable for most occupational schemes.

Q2. 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)?

The method of tax relief is not a material selling point in the vast majority of cases. However, we believe that it would be a mistake to assume that it will never matter. We feel that there is a serious risk that an imposed change in the tax relief method would have adverse consequences (as we explain in our answers to later questions).

Generally, it is only when an employer is establishing a new scheme and/or looking to replace an existing scheme that this question is addressed. Also, it is largely only those employers who use employee benefit consultants or who study the Pensions Regulators material on establishing schemes that will be engaged on the issue of tax relief. Importantly, legislation restricts which schemes can use a particular tax relief method (section 191 of Finance Act 2004) and prevents employers sponsoring an occupational

pension scheme from using different methods for different employees depending on their specific situation (section 191(3)(c) of that Act).

In deciding which method to use, a great deal will be determined by matters such as legacy arrangements in place and the employer's view on governance burdens and administration costs. The administrative burden of using RAS is carried by the provider of a personal pension scheme and therefore the costs of that aspect are not directly visible to employers in selecting their chosen pension vehicle. It may though be expressed in the fact that only larger insurance companies will have the established systems and scale to offer this method and, importantly, pre-fund the relief while waiting for HMRC's payments.

However, the interests of higher-rate taxpayer employees are also considered when deciding what method to use. These employees can be disadvantaged from the inconvenience of claiming unpaid tax relief arising due to RAS (not all of these individuals will automatically fall under self-assessment). This tends to lead employers to explore the benefits of salary sacrifice as a way to get around these issues with RAS when such a scheme is used.

In determining which is the more appropriate tax relief method, the main factors likely to be considered are:

- Inertia and the costs of change, particularly when structural and legacy factors make any switch to a new basis unjustifiable.
- The numbers of low earners likely to gain from using RAS against the number of higher earners for whom the RAS relief process is more complex and requires them to make a claim for the higher or additional rate tax relief due.
- If an employer is implementing a replacement scheme, it will also take into consideration the relief method used in the previous scheme. For example, if the net pay arrangement has been used then moving to RAS would result in lower immediate take-home pay for higher earners (assuming the same level of contribution as in the existing scheme) pending any tax reclaim.
- Whether the employer payroll already uses RAS for a group of employees (e.g. a separate nursery/feeder scheme).
- How this fits with and impacts on the scheme design. For example, in defined benefit (DB) schemes the contributions paid in do not determine the actual benefit received. Other factors such as a member's salary progression and how long they stay with the employer have a larger impact on the benefit received. This means that pension schemes don't necessarily need to retain records of the specific amounts and dates of contribution payments (unless part of the benefit design). They do not provide those details to HMRC and so for some schemes the only reason for recording that information would be for use with RAS. It is a widely held perception that the number of DB schemes operating RAS is in single figures. However, HMRC should hold this information.
- If RAS is to be the chosen tax relief method, then currently this choice may be supported by employers using salary sacrifice. (A broader switch to RAS may then result in greater use of salary sacrifice to cater for the higher rate tax issue.) Any such choice would be guided by the employer's ability to administer and document an appropriate basis.
- Potentially the employer's (and their advisers') view(s) on the durability of either option in the face of future potential changes to the pensions tax regime e.g. movement away from marginal rate relief. This is relevant when considering whether it is worth investing to meet the costs of any change of method.

Q3. 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?

We believe that paying a bonus at the end of the tax year based on RTI is the simplest and most practical solution.

Taking your four bullet points in 5.15:

- We question why, in the first bullet point, net pay pension scheme administrators would need to report their membership to HMRC when the data would be coming from RTI employment data. This is because the correct gross contribution would have been paid under the net pay arrangement and the matter to be addressed is compensating low earners for the tax relief that they have not received at that point by paying a bonus at the end of the tax year. That compensation does not need to involve the pension scheme administrators. As for employer payroll administrators, they are used to reporting information on RTI.
- We question the comment in the second bullet point, that net pay scheme members make the 'same contributions' as RAS members. In fact, a RAS member will only have made a contribution out of post-tax pay so, at current rest of UK rates, this will be 80% of the amount that a net pay member in the same situation would have made out of gross pay direct to the scheme.
- We question why, in the third bullet point, it is appropriate for an individual to be given a notification and then asked to submit a claim to HMRC for the bonus. In our view, under the RTI system, the employer should give HMRC details of how much income the employee member has received, how much tax has been paid, the amount of pension contributions deducted and the rest.

Using this information HMRC should carry out an automatic reconciliation at the end of each tax year by putting together all of the pay and tax information received to work out whether or not an employee has paid the right amount of tax. As part of this, a check should be undertaken for any pension contributions under the net pay arrangement by comparing gross earnings against the income tax personal allowance. Only if they are less than the personal allowance will a tax relief bonus be payable. If gross pension contribution plus gross earnings is less than the personal allowance the bonus will be 20% of the pension contribution. Otherwise it will be 20% of the difference between the personal allowance and gross earnings.

We are clear that affected scheme members should not be required to claim the bonus – low earners are the least likely to have the ability and motivation to do this. We believe that, with a small amount of additional data in RTI returns, the matter could be addressed by HMRC directly. The RTI system already requires notification of non-taxable death benefits so we believe it can and should be modified to require notification of non-taxable pension contributions.

- We question why the fourth bullet point concludes a new payment system would be required. While we recognise that adjusting the tax code will not work in most cases, we believe that HMRC would be able to pay a bonus by means of a credit, perhaps through the National Insurance system, without needing savers' bank account details. It may also be appropriate to explore the scope of using a reverse form of voluntary payrolling (used for taxing and collecting National Insurance contributions on benefits in kind) to allow employers who could operate it to allow for the tax relief to be credited at the time that member contributions are deducted. The extent of any end of year reconciliation would then be greatly reduced in relation to employers who could operate such a system.

In our view, a new system would not have to be built, rather evolutionary improvements and enhancements to the current system could be made. Instead of members needing to make a claim, our view is that HMRC should in time be capable of calculating the amount due and applying a credit.

The Government's concern that this would introduce additional complexity and a time lag between the pension contribution and receiving the bonus should not rule out this policy in our view. We note that a similar complexity and time lag applies in reclaiming overpaid tax on pension freedom lump sums. We recognise that there is a much larger volume of potential cases but we suggest that with the recent

developments in the field of tax administration, such as personal tax accounts and voluntary payrolling by employers, combined with the general advance of modern online solutions, there is more opportunity to make real progress in this matter.

A certain amount of concern is expressed about differences in the personal allowance under the current system. For example, on pages 14 and 15 of the Call for evidence, Sam (using RAS) has less remaining personal allowance than Alex (using the net pay arrangement). The difference is the amount of the pension contribution paid gross in Alex's case. This means that if both have an equal increase in other income during the tax year that takes them significantly above the threshold then Sam will pay tax on more of her income and thereby net off the effect of RAS so both end up in the same position. We question why this difference should be a barrier to this solution.

First, if reconciliation takes place after the end of the tax year this concern is only academic as it is then too late to make use of any unused personal allowance. Bonus will only be awarded when the tax allowance is not exceeded.

Second if a calculation is really required (we ask about the necessity for this if any bonus is end of year reconciliation-based) then we believe it should be relatively simple. The remaining personal allowance is lowered by the formula:

bonus amount multiplied by (100%/basic rate tax rate), so $[100\% / 20\% = 5] \times$ bonus amount.

For example, using Box 3.C on page 15/16 of the Call for evidence the only extra calculation of the personal allowance is that in blue italics below:

- Alex pays £1,200 pension contribution from £11,000 earnings leaving £9,800 taxable earnings and a residual personal allowance of £2,700 (£12,500 - £9,800).
- Sam pays £960 pension contribution (and receives HMRC top-up of £240 to achieve £1,200 total) from £11,000 taxable earnings leaving a residual personal allowance of £1,500 (£12,500 - £11,000).
- Sam's take-home pay of £10,040 (£11,000 - £960) is £240 better than Alex's take-home pay of £9,800.
- Under suggested approach 1, Alex receives a bonus equal to £240, that is 20% of her £1,200 pension contribution (as her gross pay plus pension contribution is £11,000 and that is wholly below the personal allowance). Alex's take-home pay rises to £10,040 (so equalling Sam's).
- *Alex's residual personal allowance is reduced by 100%/20% x bonus amount, so 5 x £240 bonus = £1,200. Alex's residual personal allowance becomes £1,500 (i.e. £2,700 - £1,200).*
- The effect is that Alex and Sam are now in exactly the same tax position.

If, as we suggest, take-home pay is equalised we recognise that there will be an interaction with Government benefit support elsewhere (e.g. Universal Credit), but we believe that should not prevent such a change. We believe it is better for Alex to wait for the money than not to receive it at all.

We acknowledge that this solution requires additional work from HMRC. However, the current times have shown that flexibility and adaptability can be delivered and result in achievable solutions. We believe that HMRC should be confident that, with sufficient time, this can be resourced and delivered, thereby meeting what is, after all, a manifesto promise by the Government.

On paragraph 5.20, we do not concur that such a system would in fact create "disproportionate burdens on both pension scheme members and pension scheme administrators" [neither is involved], nor that "additional complexities" are insuperable barriers.

We also strongly assert that a bonus solution would be also the fairest across all schemes. We note that it:

- is simple for savers to understand (as it only affects one class and gives them a top-up for saving).
- achieves as far as possible outcomes for individuals being consistent (both RAS and net pay arrangement members end up in the same place).
- is simple for schemes to operate as they are not involved (unlike the complexity of RAS).
- is relatively manageable for employers to operate since only limited added information need be provided and this is done via the RTI system.
- does not disturb other tax relief at other income tax rates (unlike a move to RAS which will have complications for all rates different from the UK basic rate).
- should, if properly designed, minimise burdens on scheme members and providers while only adding limited information for employers to provide.
- reinforces existing arrangements without major disruption, so building on our established and robust system which should benefit from long-term stability this a key political challenge is dealt with.
- is proportionate given the Government's manifesto promise and the avoidance of imposing unnecessary costs on the pensions industry.

We note that there are more low earners in net pay schemes than in RAS schemes (1.5 million vs. 1.3 million), and of these 1.5 million a significant proportion are members of public sector DB schemes. We note that the call for evidence makes limited reference to DB schemes, which the Government expects would find RAS "challenging". In our view, it is desirable that the existing differential tax treatment of members in defined contribution (DC) and DB schemes is reduced, rather than further widened and this is an excellent opportunity to do so.

Q4. 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.

We recognise the intellectual coherence from a purist tax point of view, but we caution that there would be serious issues for trust in pensions and expectations given the political promise.

A key risk would be many such low earners opting out of pension provision and this would run counter to the public policy of encouraging lower earners to make their own provision for retirement savings. The risk is of negative perceptions if something is taken away from some of the lowest earners in society. This is likely to be presented in the media as "unfair" and in conflict with the 2019 Conservative manifesto commitment which stated that:

"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."

If the "tax relief" bonus was removed under RAS, there would need to be a system to ensure that no more than the relief entitlement was granted on contributions paid. For those around the cusp of the personal allowance, this would not be straightforward. Also, there would be the challenge of how the excess tax relief would be recouped when the member has retired and then taken benefits since the tax relief was given? A similar question arises for those members who have died since relief was awarded.

Q5. 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**

We do not believe that suggested approach 3 is a viable solution as it is described in paragraphs 5.28 and 5.29 of the Call. This is because it can be extremely difficult to know whether someone will have a particular precise level of income in most cases until the end of the tax year. Migrating membership around a narrow income band is unwise.

When considering equivalent net outcomes for individuals, further complexity is added when taking into account NI thresholds, which may change over time. Employers should not be burdened with the additional risk of such unintended consequences.

Therefore, on the strict basis described we agree with the initial Government view, that such a solution is likely to be feasible only for large employers with a relatively high proportion of low-earning employees. Even where feasible, it is likely that this would be an unattractive solution to many employers. We believe that any mandated solution needs to be appropriate for the vast majority of employers.

Alternative design

However, there is no need to design precisely around the income tax personal allowance as envisaged. We think that some of the complications have been magnified by an over-specific focus on the personal allowance level.

This is because a RAS scheme is fine not only for low earners who are non-taxpayers, but it also works for all basic rate taxpayers. Similarly, a net pay arrangement scheme is fine for any employees whose income will definitely be above the personal allowance. The basic rate tax band is wide, not narrow.

A hypothetical arrangement to cater for this for DC schemes could run as follows:

- new entrants would only go into the RAS scheme if their expected income was less than £25,000 (twice the personal allowance) and otherwise they would go into the net pay arrangement scheme,
- the switch point from the RAS scheme up to the net pay arrangement scheme could be set at £30,000 expected income (two and half times the personal allowance),
- while the switch point from net pay back down to RAS could be set at £25,000 expected income (twice the personal allowance) – a margin is left to avoid too many movements between categories.

A problem would therefore only arise if one of two scenarios applied. Either:

- an employee was expected to be either a non-taxpayer or modest earning basic rate taxpayer (e.g. earning less than £25,000), was therefore put in a RAS scheme but then somehow turned out in that tax year to be a higher rate taxpayer on more than twice that pay (or even an additional rate taxpayer on six times as much); or
- an employee was expected to be earning at a higher level, was put in a net pay arrangement scheme but then somehow turned out in the same tax year to be a non-taxpayer.

We suspect the number of such persons in the first scenario is quite limited and any adverse effects can easily be cured by the affected individual making a tax claim. For the second scenario we believe the most likely cause for it to arise is due to a termination of employment in the early part of the tax year. In other circumstances the second scenario is very unlikely.

As such this approach 3 would reliably mitigate the potential difference in outcome for low earners on a consistent basis.

Problems that remain

However, we do not favour even this modified solution for the reasons given below. In our view this 'suggested approach 3' is clearly superior to approaches 4 and 2 but it is also clearly inferior to suggested approach 1.

Theoretically, if schemes were equal and practical issues overcome, then this is a reasonable solution, however we do not believe that the practical issues are easily overcome. For reasons we give below it would not be a deliverable, affordable or proportionate solution for small employers with a high proportion of low-earning employees.

A practical problem is that such a solution is excessively burdensome for employers to operate. It involves operating two schemes and a middleware solution to move the workforce between them, and it loses the benefit of an economy of scale in operating a single scheme.

The most significant difficulty for employers will be in obtaining timely and accurate earnings information from their employee in respect of other employments. This would enable employers to ensure an individual is an active member of the most appropriate pension scheme (Employees may well consider it intrusive to be asked to share details of their taxable income.) That being said, it is impossible to predict the employees' future earnings across all employments and be certain that the best outcome is achieved for any given individual. The requirement to ascertain earnings places a burden both on the employee and the employer and brings excessive risk of errors occurring, which in turn may lead to disputes and costly rectification exercises. The above suggestion of a more flexible arrangement within the basic rate band for transitions mitigates this problem but does not eliminate it.

Finding parity between two pension schemes may be difficult and if not achieved is likely to provide for varying member outcomes. Ensuring equal outcomes and fairness for individuals should be paramount given the reason for any change is to achieve equivalence.

DB pension schemes do not have their benefits influenced by the level and timing of member contributions. Having multiple short periods of service in two separate schemes would introduce complexities not only in payroll, but also in processes such as benefit calculations and annual benefit statements. We do not think such switching would be appropriate for low earners in DB schemes.

More generally it would be complicated to explain to members (whether DB or DC membership). It is likely that employees who are subject to switches between two pension schemes under one employment will become confused, risking disengagement. This option burdens such individuals to consider their savings under two pension schemes at any one time.

Given that it is low earners who will have two pension schemes linked to one employer, this is likely to create additional small pots. Stranded small pots are an issue being actively considered by the government and pension industry and are not deemed to be in the best interests of pension savers.

Additionally, at this time of challenge for many businesses given the worldwide pandemic, minimising significant new requirements and additional expense for employers will be a priority.

In fact, while some employers do already operate both net pay and RAS pension schemes, an alternative solution to the net pay anomaly may provide an opportunity for some employers to gain the efficiency of operating only one pension scheme.

Q6. 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?

We strongly advise against this approach and the damaging effects it would have pensions market.

The simplicity of the net pay arrangement is that the pension scheme provider receives exactly the right amount of contribution, without having to obtain and collate declarations and data, and without having to make any bureaucratic claims from Government. The member also receives the full effect of tax relief. This means that pension scheme administration can be focussed on its core job of pension provision with the ancillary process and costs around relief at source. It is efficient.

RAS is not a simple system as the later questions in this Call for Evidence indicate. There are significant administrative burdens due to the need for record keeping of additional data and processing. It only gives tax relief at a single income tax rate with further work required from members. Large insurance companies often pre-fund the 20% tax relief, so that the member gains it immediately on receipt of the net contribution. They then claim that pre-funding back in their interim claim. Smaller providers and pension schemes will not have the resources to do this, which will mean a delay in members receiving relief, and potential investment loss as a result of that delay

The Suggested approach 4 would have significant impact on occupational schemes that are currently operating on a net pay basis. Schemes and providers would need to spend significant sums (if they have them) in updating systems, member communications and documentation. Employer payroll systems would need to be changed to deduct the revised member contributions. This comes at considerable cost which is ultimately borne by members through higher charges.

The pensions industry may not have capacity to deal with the number of schemes needing to restructure. Not all legacy systems are able to be updated and it would be hugely problematic if all schemes wished to transfer to using RAS at the same time. Providers may simply require employers to transfer to new schemes operating under RAS which cost both time and money for all parties.

As mentioned, there is also the issue of pre-funding the 20% tax relief while the scheme awaits the payment from the HMRC. While some established large firms have the arrangements, systems and resources to operate an effective RAS basis this is not true of many other schemes which may include a number of master trusts that have invested a lot recently in current systems to achieve authorisation. There are cashflow issues (given the need for prudent reserves) and the concern that some master trusts will not pre-fund. There is the risk of unintended consequences like market disruption, less employer and member choice, and significant transition costs.

More higher-rate taxpayers would need to complete self-assessment returns to claim additional tax relief that they are owed. Alternatively, we would expect to see more of a push towards the use of salary sacrifice arrangements to reduce both tax and National Insurance contributions.

It would cause inconsistencies and complex messaging. Members of a DB scheme allowing AVCs would pay all member contributions on a net pay basis. However, if the AVCs were set up under a standalone scheme, member contributions to the DB scheme would still be paid on a net pay basis but AVCs would be paid under a RAS basis.

Consequently, this solution fails to satisfy the principles of a simple system, is much more costly for employers and schemes to operate, it is not easy for higher-rate taxpayers to obtain tax relief at the right rate (and doing so will impose an additional burden on HMRC) and could destabilise the DC pensions market.

We do not believe this would be a proportionate decision. In seeking to address one tax relief issue it creates another issue and comes at considerable administrative cost which is ultimately paid for by members.

Q7. 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

Requiring all new providers of DC pensions to operate relief-at-source is not recommended by us.

First, as the Government acknowledges, it fails to solve the two-tier situation which would be the key reason for making the proposed changes. As stated in the Call, some low-paid employees would remain in, and new low-paid employees would still be enrolled into, schemes which operate net pay arrangements and such employees would still not receive tax relief on their pension contributions.

Second, it distorts the market for DC provision. Relief at source is considerably more burdensome, and expensive, for a provider to operate than a net pay arrangement. Requiring new providers to operate relief-at-source would place new entrants at a competitive disadvantage to existing providers. This would create a barrier to entry to the DC pensions sector.

We can see that it might be imagined to create competitive tension that would lead existing providers to adopt relief-at-source, in order to satisfy the demand for a service which provides the tax relief benefit to low earners. However, this is not guaranteed to happen. The considerable disadvantages of the relief-at-source system for providers, and the fact that for many schemes only a relatively small number of low-paid employees stand to benefit, means that not all providers will necessarily do so.

Ultimately, there is no necessity to provide tax relief to individuals who are not taxpayers. The reason for doing so is that the relief-at-source method provides such a benefit as an administrative convenience, and because it is provided to some, fairness dictates that it should be provided to all. As policy design has created this issue then we look to the Government to carry the administration burden. Introducing a complex two-tier scheme amongst pension providers does not strike us as a fair solution.

This could also result in some occupational schemes not changing provider to avoid having to update payroll systems for a scheme operating on a RAS basis. This could be to the detriment of members which would be a poor outcome.

Q8. 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.

The first part of the question is about whether there is any benefit to extending RAS to all DB Schemes as well as DC Schemes. We expect the logic of doing this would be to ensure consistent treatment for pension savers who are lower earners. The position of hybrid arrangements (in particular where members earn both a slice of DB and DC whether AVC or otherwise) would need careful consideration – i.e. does this count as a DC Scheme if RAS is mandated for just DC Schemes?

The consultation requests evidence on challenges which would prohibit mandating DB Schemes follow the RAS approach (our understanding is that the overwhelming majority will operate net pay at the moment so this would amount to a change for all open contributory DB Schemes).

Contributory DB Schemes would also have to assess their benefit structure and funding requirements to make sure the scheme could still be properly operated for active members because of three impacts on providing DB benefits:

- The same extra burden of administration to actually operate RAS and liaise with HMRC.
- A liquidity gap caused by active members paying contributions from post-tax salary (i.e. 80% of previous amount) and then the trustees having to wait on HMRC to provide the remaining 20% of the member's contribution to the fund.
- Documentation will need amending to correct specify the deductions to be made from members' earnings. Scheme rules and definitions will have been based around a percentage of pre-tax salary being paid into the scheme as a member contribution. These provisions would need to be reviewed and changed to ensure members continue to pay the "right" amount of contribution for the "right" amount of benefits.

Employers would not want to see these changes as they would increase the cost of continuing to provide DB benefits. Schemes would likely need to take legal and actuarial/benefit consultant advice in relation

to this project. Employers may see this additional cost and administration burden as making the DB arrangement less attractive to run. This will be particularly pertinent for an increasingly mature segment in the private sector.

Q9. 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.

We would ask what exactly is envisaged by 'consistency in outcomes' across all aspects of the tax system. We assume that this means the same levels of tax relief are awarded irrespective of the tax relief method chosen. On that basis then one possibility to explore is the extent to which, in a world of growing digitalisation, RAS payments can be made directly for members benefits without the need for the higher rate or additional rate taxpayer to make a special claim.

Q10. 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?

We believe that the adoption of Suggested approach 1 would build more trust and engagement with pensions as members saw a reward more clearly for contributing to a pension scheme.

In contrast approaches 2 and 4 would be more likely to impact broad participation in DC pension schemes and so undermine trust and engagement.

Q11. 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**

Burdens

There are clear significant burdens in RAS compared with the net pay arrangement due to the whole process of collating data, deducting a part contribution from post-tax income and then having parties undertake a claims process to obtain the balance of the contribution from HMRC. For a large provider it can take more than a week to prepare, check and submit a monthly claim and two weeks in doing the same for the COM100 annual report.

Declarations

The current system of declarations was designed in the late 1980s and is no longer optimal. The workaround where the scheme gives the declaration on the member's behalf in automatic enrolment cases makes the justification for a formal declaration look questionable. Even where a declaration has been given by members, they will often fail to tell their provider when a change in their situation means

that they cease to be eligible for tax relief. For example, the member may go overseas. When discovered years later this is a serious challenge to remedy. We propose that it is time to replace declarations with more standardised notifications based on a legal duty (rather than a member's undertaking) that can be issued by providers at initiation and then at appropriate junctions when they suspect that there may be an issue.

Earnings limit

This responsibility has to rest with the member as the only person with full visibility of their tax affairs. Employers will only know specifically about matters relating to the employment concerned and not about the member's other jobs or income sources. Generally, pension scheme providers are forgotten about by members, particularly those relying on the £3,600 limit.

Interim claims

We believe that providing further data would not only increase implementation costs, but it would be a burden that would see work done monthly that is currently only part of the annual process. There is less of a justification for such a change.

Q12. 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?

The time has come to modernise RAS in all its features. This means the replacement of a paper-based set up that is outdated in our current digital times. Temporary measures introduced to allow claims to be submitted electronically during the current crisis should become the new standard.

SPP response ends

Yours faithfully

Fred Emden

Chief Executive, The Society of Pension Professionals

The Society of Pension Professionals (the "SPP")

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We do not represent any particular type of pension provision nor any one interest-body or group. Our ethos is that better outcomes are achieved for all our stakeholders and pension scheme members when the regulatory framework is clear, practical to operate, and promotes value and trust.

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