Formal consultation response from the Chartered Institute of Payroll Professionals in respect of: Pensions tax relief administration – Call for evidence

Organisation response to be submitted to: HM Treasury

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Dear Sirs By Email

Introduction

The Chartered Institute of Payroll Professionals (CIPP) is grateful to have the opportunity to comment on the consultation for Pensions tax relief administration – Call for evidence. We are pleased to be able to feed into the policy and operational changes that might arise from this consultation, and hope that this written response will form the basis of an ongoing relationship with the pensions tax relief administration team at HM Treasury. The CIPP gives permission for you to include us in the list of organisations involved in the consultation exercise. Company information about the CIPP and its role in representing employers can be found at the end of this response.

Purpose of response

Payroll teams across the UK process pension deductions for millions of employees. Contributions are made from employee salaries via Net Pay Arrangements (NPA), Relief at Source (RAS) and Salary Sacrifice. The purpose of this response is to express the views of payroll professionals on, not just how the proposed methods to rectify the pension tax relief for low paid earners would affect those concerned, but to discuss and express views on how each suggested proposal would impact on processes performed by payroll teams.

In order to collate the views of the payroll profession, which include both in-house professionals, the out-sourced payroll service sector (which includes bureaux, accountants and book-keepers), as well as payroll software developers and payroll consultants, a survey ran throughout September 2020. A virtual Think Tank roundtable was held, which was attended by payroll professionals representing a range of sectors and service lines, which expanded on survey responses through an open and frank sharing of views and experiences. The meeting was also attended by one of the lead representatives from the call for evidence.

Summary of key findings

The survey asked respondents various questions surrounding the proposals laid out in the call for evidence. The initial question asked respondents how pension deductions were made within their organisation.

- 25% operate a NPA scheme
- 34% operate via a RAS
- 41% operate both NPA and RAS

During the virtual roundtable event, members advised that they used the above methods of pension deduction, however, the majority also advised that they used a Salary Sacrifice scheme.

The call for evidence gave four suggested approaches to tackle the pension tax relief anomaly, and therefore findings will be split into those four different categories.

Suggested approach 1 –paying a bonus using RTI data

- Almost 56% of survey respondents believed that this method would resolve the anomaly
- Most members that took part in the roundtable also believed that this would be the most successful approach to tackling the problem
- From survey and roundtable findings, the term ‘bonus’ was frowned upon. The term ‘pension top up’ was favoured as being a more appropriate term
- The query was raised about how the ‘bonus’ payment would be made. Members felt that by adding this back to an employee’s income, could then cause issues when claiming means-tested benefits, such as Universal Credit
- It was suggested, both in the survey and the roundtable, that the amounts paid back as a ‘bonus’ could be paid directly into the employee’s pension scheme to avoid any adjustments to means-tested benefits
- Concerns were also raised as to how this would be corrected if an error was made via a Full Payment Submission (FPS) sent via Real Time Information (RTI)
- Members believed that using this method could cause more confusion for employees in relation to, not just why they are being ‘paid’ this extra money, but how it could then possibly affect any benefits that they may be claiming
- Points were made within the survey on how HMRC would implementation this approach
- Comment taken from survey: “*This is a simple solution to the problem and needs little input from employers. It's using existing data and technology, so there shouldn't be much additional work required”*

Suggested approach 2 – Standalone charge

Unsurprisingly, this approach was not supported by anyone who attended the round table and nearly 80% of survey respondents disagreed with this approach. The overall census to this approach can be summed up in a comment made within the survey responses.

“*We are trying to ensure people are provided for in their retirement, penalising them through no fault of their own feels somewhat unfair and [will] result in opt outs. The government will end up supporting them during retirement where they are on low income prior to retirement.”*

Suggested approach three - Employers operate multiple schemes

- 45% of survey respondents believed that this method would resolve the anomaly, however this would not be without its challenges to deliver:
  - This method would cause a huge increase to the workload of payroll professionals
  - Queries would be raised by employees as to why their contributions were changing each pay period
  - Huge onus on payroll teams to ensure that employee deductions change when taxable pay changes
  - Systems would need to be updated to accommodate this approach, which, in turn, could present an additional cost to employers
  - Payroll professionals would be expected to educate employees on pension details, which they are not qualified to do. This would create risk due to the possibility of incorrect details being supplied to employees.
  - This approach would be a 'nightmare' to administer for all payroll teams, however, could be virtually impossible to tackle effectively where payrolls are processed via a bureau
  - *"It continues to be a challenge to generate employee engagement for pensions schemes - apathy plays a huge part, no understanding of some of the basics such as salary sacrifice. Questions only come up when circumstances change e.g. maternity leave."* Comment taken from survey
  - This approach could be more effective if the pension systems were operated on a paperless system and if all information could be accessed and managed electronically

Suggested Approach four - Mandate use of RAS for all defined contribution pension schemes.

- 72% of survey respondents believed that this method would resolve the anomaly
- Members were concerned that if this were the chosen method, employers would not be able to enter those in a DC scheme into a salary sacrifice scheme. If salary sacrifice ceases, no Class 1 National Insurance saving will be made, which, in a large majority of companies, the saving is passed back to employees
- Payroll professionals believed that this could be the easiest option, in terms of administering the deduction of pension contributions, once the initial 'overhaul' has been completed
- This option would have a big impact on Net Pay pension providers and employees who are currently sat in the high tax bracket
- Opinion from the roundtable was that RAS was easier to administer and explain to employees when compared to NPA
- Questions were raised surrounding the devolved nations and how the RAS relief would be administered
- Communication would be key to the success of this approach, but would require better engagement with employees and employers

One of the final questions posed on the survey was in the form of a vote which asked the responder which approach they thought would be the most effective. Members voted:

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- 35% - Approach One – Payment of a bonus
- 0% - Approach Two – Standalone charge on RAS schemes
- 30% - Approach Three – Operation of multiple schemes
- 35% - Approach Four – Mandating use of RAS for DC schemes

Conclusion

Overall, approach one and approach four were the most favoured options for payroll professionals, however, option three would also be considered. Option two received no support.

Approach one would be the most effective approach to administer as no adjustments would need to be made from a payroll processing side. HMRC already have details sent via RTI, which include how much pension has been deducted via NPA, therefore the bonus payment could be processed using details already held. The term 'bonus' proved unpopular because it is not seen or acknowledged as a bonus payment and would be better called a 'pension top up'. As with all 'cash' received, when this is processed via PAYE, it is deemed as earnings and therefore concern was raised that those who had the 'bonus' paid to them would then in turn see any means-tested benefits they receive affected. It was suggested that funds should not be processed in this way, and that the payments are processed directly into the employee's pension fund. Communication and engagement with any impacted employees would be key in making this a success.

As advised in the key findings, approach two was not supported by payroll professionals, and members felt that this was an unfair method which defeated the object of encouraging employees to save into a pension scheme.

Suggested approach three would cause the most disruption and would require a huge administrative burden to payroll professionals. Not only would employers have to ensure that their teams are continually up to date with current pension requirements, but they would also have to ensure that the correct deductions are made each pay period to reflect employees pay. Unless software providers can create a system to make this an automated switch, the process will be manual. As with every manual process, this would be open to human error, and, if an error did occur, it could not be easily rectified. Where an employee was switched from one scheme to another, their net pay would be affected, which would result in numerous questions that would fall on to payroll teams. Payroll professionals, whilst they understand the principles of pension deductions, are not qualified to give pension advice, but as this would affect an employees pay, they will be the first point of call, and will be approached for advice. If software were updated, this could then present an additional cost to employers to implement the required software. For this approach to be effective, pension providers would need to engage more with employees regarding their pensions so that employees are better informed of the need and benefit from switching to one scheme to another.

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The switch of all schemes from NPA to RAS for all DC schemes as suggested in approach four, would result in all low-paid employees being treated the same. This approach would have a detrimental effect on those who fall into the 45% tax bracket as any additional relief that they are entitled to, on top of the relief claimed via the pension provider as part of a RAS scheme, would have to be claimed back personally. The main concern around this proposal was that it would mean an end to all salary sacrifices (which are incredibly popular) that are offered to employees in relation to pension contributions. Often employers use the Class 1 NICs saving from this method as a 'fund' to implement other benefits that can be offered back to employees. Questions around the devolved nations were also raised, mainly in relation to those employees based in Scotland, who could see less of a tax relief if RAS becomes mandatory.

Recommendations

Each approach (except for proposed approach two) received both positive and negative responses, therefore, when deciding which proposal would resolve the anomaly the most effectively, there is not only one option. You can see from the comments included in our survey, that there are arguments for and against each proposed method. From a processing point of view, approach one would satisfy the objective as it is has the least impact on payroll teams, however the suggestion in approach four would mean that all those in a DC scheme would need to be administered in the same way via the payroll. It was clear from survey results and the held roundtable that despite the administration burden that any of the proposed methods would cause, it would be worth it if it achieved equality for low earners.

What was clear throughout all survey responses was the need for greater employee engagement and understanding on the subject of pensions and the tax system. Greater engagement will lead to better decision making by members of pension schemes. By engaging with individuals and employers on the benefits gained from either NPA or RAS deductions, both would be educated to make a more informed choice of which scheme to use.

Education material, delivered in a variety of formats, from both Government and Pension Schemes, continues to be key in delivering a successful outcome.

Yours faithfully

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Should you require clarification of any of the points that have been made in this response, please do not hesitate to contact me or another member of the Policy team.

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Company Information

The Chartered Institute of Payroll Professionals (CIPP) is the Chartered association for payroll, pensions and reward professionals in the UK. With more than 9,500 individuals benefitting from the CIPP's membership benefits, support and education services, the Institute is dedicated to raising the profile of payroll in businesses across the UK and internationally.
Its education portfolio has been developed based on business and individual needs to ensure that it is providing the most relevant training in the market; while its policy and research team represent the members at government consultation forums on the 185+ pieces of legislation that affect payroll and pensions in the UK, ensuring members are up to date and their views are heard.

The CIPP also offers compliance health checks in payroll processes and procedures to ensure that organisations are complying with legislation to avoid non-compliance penalties, and CIPP members are governed by a code of conduct ensuring they remain highly professional, up to date, and compliant.

The mission statement of the CIPP is:

Leading payroll and pension professionals through education, membership and recognition

Representation
The views of the Chartered Institute are sought and valued by Government departments and other organisations, as witnessed by its representation on bodies ranging from HMRC, and other external Employer Consultation Groups. The Institute, through its Policy team headed up by Helen Hargreaves, has been responding to consultation documents and attending consultation meetings for more than 20 years.

As a result of this sustained effort, we have created sound working relationships with the DWP, HMRC, BEIS and other Government departments.

The Chartered Institute operates an Advisory Service staffed by professionals able to provide accurate and authoritative advice on a wide range of topics. It also runs national forums which allow members direct contact with representatives from HMRC and other relevant bodies and also provides a forum for members to input and feedback on the CIPP's policies.

Education
The Institute validates and controls a wide range of professional qualifications in both the payroll and pensions sectors, from Payroll Technician Certificate level to Masters level. IPP Education, a wholly owned subsidiary of the CIPP, delivers the qualifications and provides tutors at officially recognised standards. IPP Education also runs a comprehensive range of short training courses throughout the UK.

Events
The CIPP also runs a series of conferences throughout the year, culminating in the Annual Conference and Exhibition.

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