Auto enrolment and lower paid workers

Employment Tax **General Features**

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Auto enrolment is now business as usual and is widely regarded as a success. However, this success is at risk of being undermined by the fact that increasing numbers of workers are not receiving any tax relief to help make up their contribution amount.

The issue affects those who earn over the £10,000 needed to trigger auto enrolment, but below (or not very much above) the ever increasing personal allowance and who are enrolled in a net pay pension scheme rather than a relief at source scheme.

Under relief at source arrangements, non-taxpayers are nonetheless, given basic rate tax relief (20%) on pension contributions up to £2,880 a year. In practice this means that HMRC will top up a net contribution of £2,880 to a gross £3,600. The government-backed pension provider, NEST, uses a relief at source scheme, as do a few other auto enrolment scheme providers.

However, this same tax relief is not available to non-taxpayers for schemes that operate net pay arrangements, like the vast majority of occupational and trust based schemes. It is such an important issue that some pension providers like NOW Pensions are topping up non-taxpayers' pensions pots out of their own pockets to offset the shortfall.

LITRG believe the current situation for low paid earners under net pay arrangements is very unfair particularly given the fact that some of them will have been encouraged into auto enrolment on the basis that they pay in, their employer pays in and the Government pays in. Notwithstanding that from April 2019, the employee contribution rate will increase from 3% to 5%, this unfairness looks set to increase further with the potential extension of auto enrolment to 18 year olds and the removal of a minimum income threshold on contributions, as these changes will see more lower-earners and more eligible earnings coming into play.

We have for some time been raising the issue with HM Treasury and HMRC but no progress has been made so far due to perceived difficulties in finding an appropriate solution. We believe it is possible to solve this problem and we are currently engaged in further study to find a feasible, economic solution.

One possibility, suggested by LITRG volunteer Kelly Sizer in her CIOT fellowship thesis 'The complexities of government-incentivised savings schemes for people on low incomes', is for HMRC, using PAYE real time information data, to match pension contributions deducted via the payroll to individuals' records. They could then reconcile where those in a net pay arrangement have not received tax relief but would have done so under a relief at source scheme.

We have had a number of conversations with various interested parties in both industry and government and will continue to share ideas and explore feasible solutions. We are keen to hear from advisers who may have ideas of their own to share. In the meantime, any advisers with employer clients who need help setting up new schemes, could inform them that net pay arrangements may be unsuitable for workers who earn below the personal tax threshold.