ASSOCIATION OF CONSULTING ACTUARIES

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Office of Tax Simplification
Room G 41
1 Horse Guards Road
London
SW1A 2HQ

By email to ots@ots.gov.uk.

Dear Sirs

Third Party Data Reporting Review - Call for Evidence

I am writing on behalf of the Association of Consulting Actuaries with comments on the Office of Tax Simplification's **call for evidence on its third party data reporting review**.

Members of the ACA are all qualified actuaries – mainly Fellows of the Institute and Faculty of Actuaries. All actuarial advice given by our members is subject to the Actuaries' Code. Members provide advice to thousands of employers and pension schemes - with total assets exceeding £1 trillion - including most of the country's largest schemes – and increasingly consulting actuaries are now involved in a wide range of additional areas.

We are therefore responding in the capacity of a representative body for professional advisors, providing advice to the providers of occupational and personal pension schemes and their sponsoring employers (including the experience we have from some of our member firms providing administration services to occupational pension schemes). Our response is confined to questions 14 to 28 ie 'Potential Third Party Data Providers' and our comments reflect the impact of any proposals on pension schemes and their sponsors. On that basis, where responses are asked from 'businesses' we are responding from the viewpoint of the pension schemes (which may be occupational or personal pension schemes) and in this context 'customers' are then the pension scheme members.

We set out below some introductory points:

The theme of the consultation is provision of data to HMRC to enable pre-population by HMRC of self-assessment tax returns; and in this context the consultation mentions "pension contributions". We understand this to be in the context of two aspects – the collection of correct tax relief for the member; and correct payment of special pensions taxes.

In principle, we agree with initiatives to simplify the processes of the (pensions) tax system. Anything that makes it easier for individuals to save for retirement (and correctly collect tax reliefs and pay taxes involved) is a positive thing.

However, any changes must not result in disproportionate administrative burdens for employers and pension scheme providers (the ultimate costs of which are likely to indirectly be borne by pension scheme members). Therefore, our main aim of responding is to ensure that any changes that will be proposed by the OTS are realistic, manageable and proportionate.

In particular, the pensions tax regime (particularly for defined benefit (DB) schemes) is complex, so care needs to be taken so as not to result in unintended consequences.

A further important consideration is that there have been Government consultations in the past about possible changes to the pensions tax regime (away from its current structure, which is "Exempt Exempt Taxed" (EET) with tax advantages being limited by the operation of the Annual and Lifetime Allowances). **It is important not to make costly changes to systems if they may have only a very temporary lifetime.** Our comments below are all based on the present pensions tax regime.

As noted above, the call for evidence states that the OTS is interested in considering sources of data in relation to "pension contributions", and in our comments we distinguish between the considerations for contribution relief and for pensions taxation (in particular the Annual Allowance).

In DB pensions (depending on the outcome intended to be achieved by capturing the data), the more relevant item may be the "value of pension savings an individual makes/earns in a year", which is not the same as contributions. (This is currently very relevant for Annual Allowance tax charges, and we comment on this further later. In particular in Appendix 2 we set out some of the particular complexities for that.)

What we have not commented on:

- When it comes to relief for pension scheme member contributions, we understand that although the issue of "Relief at Source (RAS) versus net pay" tax relief for low paid workers is one that needs to be addressed, and might be resolved via appropriate data reporting, this question is being dealt with by a separate consultation. We therefore do not cover that aspect further.
- Under the current tax regime, members are not taxed on the employer-funded benefit accrual, by virtue of this not counting as a benefit in kind; so this relief (for employees) on contributions is managed "by omission". (The relief for employers is corporation tax so not relevant to the member or to this consultation.)
- We also understand that Pay As You Earn issues are not within the OTS consultation, so although schemes exchange information with their members and HMRC on tax deducted from pension and benefit payments, we do not cover that here.
- The other element of the "EET regime" ie tax relieved investment returns, is not under discussion, on the grounds that the legislation and processes deal with this efficiently.

Our main interest in the data reporting review therefore relates to the following:

- **Methods of delivering full tax relief on member contributions**:

  For schemes where tax relief is given via RAS, the present situation is that members who pay tax at higher than basic rate have to claim any additional relief through their self-assessment tax returns. If pension schemes were to provide contribution information to HMRC, a consequence could be that such higher-rate taxpayers can receive their rightful pensions tax relief automatically, and possibly earlier than under the present system. We would fully support this outcome (indeed many who are entitled to this extra relief do not claim it due to ignorance or inaction). The total amount of unclaimed higher rate tax relief for eg 2017/18 has been estimated by some commentators as exceeding £750m[1].

This would require an extra information exchange from the provider to HMRC compared to the present situation, under which (after the member has paid contributions net of basic rate tax) the scheme reclaims that basic rate tax from HMRC either at the year end (APSS106) or (for example) monthly via an interim claim (APSS105) – but only as a total amount for all the scheme's members. In order for HMRC to tie up member contributions with individuals, the scheme would (for example on a monthly basis) need to provide HMRC with a schedule of NI numbers and (net) contributions. After submitting the claim form the scheme would still receive the basic rate tax from HMRC for allocation to each member's fund as at present. Whether or not an additional tax relief payment would be owed to the member would depend on their total income (net of any deductions) during the year, so this might not be evident until the end of the tax year, although the amounts could be used to adjust the member's tax code on an interim basis with full adjustment at the year end.

For occupational schemes, member contributions are paid via net pay so relief at the member's highest rate of tax is given automatically (ignoring the difficulty for low earners). The OTS call for input does not need to consider this aspect.

Note that for many pension scheme members (in both occupational and personal pension schemes), what might be considered "member contributions" are arranged under salary sacrifice: they are paid (and receive tax relief) as "employer contributions" so in practice the delivery of income tax relief in the member's hands is similar to that given under the net pay system. Therefore we do not need to address this aspect further.

- **Any approaches for HMRC to monitor pension input (from employees and employers) against the Annual Allowance, and identifying Annual Allowance tax charges due**:

  It is here where we have significant concerns that any proposals for extra data reporting to HMRC could be disproportionate, and would not have any practical outcome in many situations. For example if any requirement for pension scheme administrators to calculate accurate Annual Allowance usage ("pension input amount") values for all members, this would be extremely disproportionate. It would be very onerous, and inappropriate, given that the number of members who incur an Annual Allowance charge[2] is very small compared to the total number of pension savers. It might be argued that the figures that might be required for the new dashboard could already be a substantial step towards this item – but as set out below, this is not the case - for all sorts of reasons.

Where relevant we do also note other areas where information is exchanged for tax purposes.

Our comments on the particular questions in the call for evidence are set out in Appendix 1. Appendix 2 sets out further information backing up our comments regarding any proposal that all

[1] https://www.pensionbee.com/press/higher-and-additional-rate-taxpayers-likely-to-be-missing-out-on-1-billion-in-unclaimed-tax-relief

[2] The most recent public statistics are for 2017/18 in Personal pensions: contribution and tax relief statistics - GOV.UK (www.gov.uk). This reported 10,750 AA charges paid (by schemes) through their accounting for tax returns; and 26,550 individuals reported through Self Assessment returns. (In principle one would expect the latter to include the former. However the note points out that the former payments are "likely to relate to 2 tax years earlier".)
By comparison, as at 31 December 2019, the ONS reported that there were some 3m active members in DB schemes in the UK and TPR reported some 14m in DC schemes

schemes would need to calculate and report Annual Allowance pension input amounts for all their members.

If OTS are framing recommended changes, it is important to note that pension schemes involve a number of different delivery vehicles (contract, trust, master trust, bundled, unbundled). The practical challenges of data reporting will vary by scheme type and the nature of the administrator in place. The parties involved (sponsoring employers, trustees, third party administrators, bundled MP providers, etc) will also require clarity on who is responsible for what, and what the dependencies are (eg reliance on “good data” from an administrator with digital records).

We hope you find our comments useful. We would be happy to discuss this matter further if you wish – if so, please contact me on 01252 768175 (email jillian.pegrum@aon.com) or Karen Goldschmidt on 020 7432 6621 (or at karen.goldschmidt@lcp.uk.com)

Yours sincerely

Jillian Pegrum FIA, Co-vicechair of the ACA Pensions Taxation Committee

On behalf of the Association of Consulting Actuaries Limited

Appendix 1

Where relevant, we set out our answers to OTS's questions separated into points relevant for the administration of tax relief on employee contributions under RAS (as noted above relief is given automatically where net pay is used, or where employee contributions are paid via salary sacrifice); points relevant to the assessment of Annual Allowance Charge (including Money Purchase Annual Allowance); and other points.

Questions for Potential Third-Party Data Providers

14. Does your business provide its customers with tax related data to help them fulfil their tax obligations, and how is this provided? Do you currently have a method for individuals to query the information provided if they believe it is inaccurate?

Both Money Purchase (MP) and DB pension schemes already provide information to members. Aside from information in relation to tax deducted from pension income etc, administrators provide information to members in various situations.

Points relevant for the administration of tax relief on employee contributions under RAS

The scheme administrator will inform members of the contributions paid by the member (net of basic rate tax) and the tax relief added to their accounts (plus also the contributions paid by the employers) towards MP schemes. This information will usually be provided on an annual basis as a schedule of monthly payments, but this will typically relate to when amounts are invested, not when they were paid into the scheme, and would not necessarily be collated by tax year.

Points relevant to the assessment of Annual Allowance Charge (including Money Purchase Annual Allowance

i. The Annual Allowance (AA):

A scheme administrator must by law provide a member with an AA "pension savings statement" when the member's "savings made" (as assessed by complicated HMRC rules) – technically called the total pension input amount - in the scheme over the tax year exceeds the standard AA (currently £40,000). Currently, typically schemes identify those cases which are likely to have amounts which approach/exceed this figure, hone the fine detail of the numberwork just for them and provide the formal statement for a member only where the standard AA is indeed exceeded. These statements do not have to be provided if the member has pension input amount in the scheme below the standard AA; but such members can request a pension savings statement and the scheme must respond to such a request.
The AA pension savings statement must contain the exact pension input amount for the scheme (split between DB/MP) for the tax year; and for 3 previous tax years.

The member must use this together with other information the member collects, to work out if a charge is due, and, if so, declare it on their self-assessment tax return.

This limited legislative requirement for pension savings statements, and the consequent system, was developed with the aim of being a proportionate approach to a tax charge that applies to a very small number of individuals; and acknowledging that, particularly for DB pensions, "pension input amounts" have no meaning other than for potential tax assessment, and can involve for some cases very complex calculations, and/or manual work. The approach knowingly does not capture the full scenarios where the AA charge might arise – for example

- These statements are not generated automatically for those whose total input in a scheme is less than the standard AA (including for those higher earners who might exceed their own tapered AA); the approach will not pick up individuals who might exceed the AA through membership of multiple schemes.

- The individuals may have carry-forward scope from earlier years - meaning that even where a statement is generated to tell a member that they have a high pension input, this might not lead to a charge for them.
- The AA regime is very complex and it is quite likely that AA charges are incorrectly reported and paid by members (this view is supported by the large number of retrospective corrections as shown in PEN7/8 ONS statistics). If OTS's aim is that HMRC receive enough information to then proceed to calculate whether a member has an AA charge, we believe the regime is too complex for this. For starters, it could only work on a systematic basis if every provider provided pension input figures[3] (however small) for every member; and not just for the tax year of assessment but also some history - and we have previously reported to HMRC consultations on the total disproportionality of this especially for DB.

  Appendix 2 sets out further detail.
  (Having said this, there are some schemes that are in a position to, and voluntarily choose to, quote AA usage each year to all active DB members. We do not have statistics but suspect these might be in the minority.)

ii. The Money Purchase Annual Allowance (MPAA)

The MPAA limits tax efficient savings to MP arrangements after a member has flexibly accessed their funds (this HMRC measure aims to limit the risk that funds that had already been tax-advantaged would then be used to contribute further and obtain additional relief).

We understand that it is particularly intended to discourage systematic abuse of relief.
The process in law is that if a member "flexibly accesses" funds in a MP scheme (not including any tax free lump sum that the member may be entitled to), the MPAA applies for savings thereafter if these exceed (currently) £4,000 in a tax year. This is implemented by law by way of the requirement that, on such flexible access in a scheme, the scheme must notify the member that the MPAA applies to their pensions savings made thereafter (and tell them the tax implications); and the members must notify any other MP pension arrangements they have.

By this means, all schemes which thereafter receive MP contributions by or for the member, are aware of the application of the MPAA to the member. Any such MP scheme will also need to provide an AA pension savings statement to a member who has triggered the MPAA if their MP pension input amount under the scheme exceeds £4,000 (because tax is (usually) incurred). Our experience is that members find the MPAA very difficult to understand and there is not broad awareness of its existence.

This is perhaps one area where third party data reporting might help - if HMRC were to be given information by schemes and maintain a register that schemes can use, this would increase awareness of the measure; and increase the likelihood that tax that falls due is identified and paid (or that individuals modify their MP contributions so that the charge does not arise).

We would note that the number of individuals now in the MPAA regime may have expanded in the current Covid times, with the flexible access that led to this made because of need for cash rather than any plans for deliberate abuse (and without appreciating the implications for future savings). The comments above are solely about operation, not about the desirability or otherwise of the MPAA measure.

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[3] Even if HMRC received all this, further information would be needed for example:
enough information to calculate a member's tapered AA for the tax year and historically (most of this information – once supplemented by AA Pension Input Amount information - is in fact within the tax return, what is missing is information needed as to the precise status if any member contribution has been made by a recently set up salary sacrifice.
whether for any relevant past tax year the member had no pensions savings in the UK regime (as this would mean they do not get carry forward from that year).

Other points

- The Lifetime Allowance (LTA)

  LTA information is provided by schemes to members when benefits are 'crystallised' and annually thereafter (so that the member can pass this information on to other providers for any further LTA tests that arise).

  In many cases no LTA charge arises, but where it does, typically the scheme pays the charge to HMRC (in a return); and provides required information to the member to help the member complete their Self-Assessment Tax return. There might be some advantage to the latter document being linked to individual's personal tax return number or NI number.

- Miscellaneous

  Under tax law, other events must also be notified to the member; for example if the scheme makes an unauthorised payment to the member, or information provided by the scheme administrator to the personal representatives on a member's death.

- Other information required to be provided that does not help in tax management (and has potential to mislead on tax) is as follows:

  - MP schemes are required by DWP legislation as part of their benefit statements to show the contributions (by both members and their employer) in the last "scheme year". However, this scheme year may not correspond to the Pension Input Period (ie the tax year).
  - DB arrangements habitually provide annual illustrative benefit statements, which would commonly set out an illustrative (usually simplified) quotation of accrued DB pension (or the potential prospective pension). However, the dates may not correspond to the tax year (ie for relevance for AA purposes) – and (usually) for DB, this type of information in such benefit statements is not appropriate for calculating AA usage (pension input amount). As noted above we think that most DB benefit statements would not include the "pension input amount" ie AA value of the pension savings.

At the current time, when such information does not automatically reach members' tax accounts, any process for querying and correcting information would be between the scheme and the members. Administrators do have processes for members to query information, and request correction if appropriate. So for example a query on an AA figure that identifies an error would lead to the scheme sending the member a revised statement.

15. Does your business already provide data on a regular basis to HMRC or to another government department? How is this done and what format does it take? Are there any particular positives or negatives with the current method of data provision? If you ever need to correct the customer information you hold, how do you update an earlier submission to HMRC or other government department?

Both MP and DB occupational pension schemes already provide information to HMRC:

Points relevant for the administration of tax relief on employee contributions under RAS

As noted above, the scheme administrator will declare total contributions received (net of basic rate tax) for all scheme members, in order to reclaim the basic rate tax from HMRC for investing into the member's accounts.

Points relevant to the assessment of AA Charge (including MPAA)

When a pension scheme has to provide a member with an AA pension savings statement (see question 14 – this will be because a member's AA usage in the scheme has exceeded the standard AA, or in connection with exceeding the MPAA) the scheme administrator must let HMRC know (via an Event Report) that the required AA pension savings statement has been provided and tell HMRC the total scheme AA usage ("pension input amount") for the member for the year. However, as noted in question 14 and Appendix 2, this does not provide the full picture of AA inputs or likelihood of AA charge arising. Also, the timing on providing this information provision is (necessarily) much later than would be needed to identify AA charges ahead of payment deadlines.

Other points

- ~~A~~Administrators provide information to HMRC on a quarterly basis via the Accounting For Tax return, alongside making certain tax payments. This includes information such as LTA charges arising, and AA charges being paid by the scheme for individuals (but not if the individual is meeting a charge directly).
- Some events that occur in a registered pension scheme must be reported to HMRC using the Event Report – our understanding is that this is so that HMRC can make limited risk-focussed checks on whether tax rules are being followed and pensions tax paid appropriately. These include benefits paid out to those relying on protections against the LTA (other than Fixed Protection16 or Individual Protection16 which are not yet available to be notified through that process).
- Other events must also be notified to HMRC: transfers to Qualifying Recognised Overseas Pension Schemes; pension flexibility payments and pension flexibility death benefits payments.

Correction of figures provided to HMRC

Points relevant for the administration of tax relief on employee contributions under RAS

If scheme administrators find an error in their submitted claim forms, they must submit a supplementary claim to account for this.

Points relevant to the assessment of AA Charge

An important feature of all of these information flows from pension schemes (including calculated figures) is that there are systematic reasons why calculations are made by schemes and then later revised. There are frequently situations where calculated DB AA pension input figures (and in a subset of these, tax charges paid) need to be amended.

For example, our understanding is that particularly in the NHS scheme, the challenges of data collection can mean that estimates of AA figures are often provided to members; followed up with final figures. More generally the McCloud judgement relating to public sector schemes may well result in retrospective AA adjustments.

As another example, a huge number of private sector pension schemes are currently going through the process of correcting pensions for revisions to recorded GMP data from inconsistencies between scheme records and HMRC's own records (so called "GMP rectification"); and (to a lesser extent for AA purposes) correcting pensions that are unequal between males and females due to the treatment of Guaranteed Minimum Pensions (GMPs). The tax issues relating to this are already complicated; but can result in replacing past figures to the member and revised Event Reports. (This could also be for revisions to LTA usage and charges.)

16. Is your customers' identification and relevant financial data currently held digitally in a database? What is your primary reference for your customers (e.g. National Insurance number)?

Yes, schemes or their third party administrators would typically hold current membership information on digital databases, referenced by NI number. There may be some more ad hoc aspects of the way data is held as needed for calculations arising from one-off events or from legacy issues, and some transmission of data from one administrator to another may be on scanned pdf pages or paper files rather than embedded into systems.

17. What do you consider would be the main difficulties of the introduction of data reporting to HMRC? Are there any types of business or charity which would have particular difficulties or disproportionate costs in reporting customer data to HMRC?

One of our main concerns about providers (ie schemes) passing data to HMRC on an individual's behalf is around the accuracy of data; and ongoing maintenance of its accuracy. There would need to be some process whereby an individual is notified that information has been provided to HMRC on their behalf. The individual will need to be able to view that information and check the information that has been provided is correct (we assume that challenging the information would be via the normal processes) but it could be difficult for individuals to know how to check inputs. In theory, HMRC would collect data from all an individual's pension providers and then run their calculations and pre-populate the individual's tax account with the right figures. The taxpayer would simply review the figures, agree that they are right, and prepare the return using those figures. The problem would be in knowing if all providers have provided the figures, whether the figures were accurate etc. Ordinary taxpayers may be unwilling to cross out HMRC's number and substitute their own figure – and it is possible that HMRC would impose a penalty where the taxpayer had rejected HMRC's figure and substituted a taxpayer-suggested value that also turned out to be wrong.

These concerns are exacerbated if HMRC's intention is that the figures would be used to populate self-assessment forms. As noted above, for AA, we believe that HMRC collecting all the right information and processing it correctly without member involvement would be almost impossible, so populating this part of the self-assessment form could not be done.

Schemes and providers who have passed any information on would no doubt wish to add messages to members explaining the information and how it is calculated (within limits, and noting that they would wish to steer clear of giving information that would be construed as advice).

18. How long would it take to adapt your systems in order to be able to effectively report to HMRC? What additional administrative costs would there be for your type of business? Is there anything HMRC could do to support delivery?

Points relevant for the administration of tax relief on employee contributions under RAS

We leave it to the providers operating RAS to answer this.

Points relevant to the assessment of AA Charge (including MPAA

We believe that it would take several years for schemes to adapt their systems to provide more information than currently required on AA reporting; and as noted above and in our previous letters, this would be extremely costly.

19. Do you currently usually hold customers National Insurance numbers?

Yes, this is a common unique identifier for members

20. If your type of business were required to collect additional data from your customers in order to facilitate reporting, how easy or difficult would this be, and what would be the timescales involved?

We believe that some members would resist providing information to scheme administrators unless there is a clear specific reason for this, although ease of reclaim of higher rated tax relief may well be such a reason.

21. How often would it best fit with the way your business systems operate to provide HMRC with the relevant data (for example, in real time, monthly, quarterly, annually)?

Points relevant for the administration of tax relief on employee contributions under RAS

If information is to be exchanged to aid payment of tax relief on member contributions, then it would be most sensible to share that as and when contributions are paid.

Points relevant to the assessment of AA Charge (including MPAA)

Our particular concerns over sharing information for AA input are set out in many places elsewhere in this response. As noted above sharing information on AA input for DB schemes would only be appropriate once a year. Information could be shared for MP arrangements as contributions are made (by or for members) but when contributions are made has a different definition depending on whether the member is in an occupational scheme and getting relief under the net pay system, or a personal pension scheme.

22. Are there any legal or regulatory issues specific to your sector that could arise if your business were required to report customer data to HMRC?

No, other than the usual data protection rules, although Finance Act legislation would need amending to provide for any increased exchange of information.

23. Are there examples of the ways data reporting is carried out in practice that we could learn from (for example, Common Reporting Standard), either positively or negatively, whether within the UK or in other countries?

No comment

24. Are you aware of opportunities offered by emerging technology that could support the provision of third party data to HMRC?

No comment

25. Do you have any suggestions on what additional legal powers would be necessary in order to facilitate reporting by third parties to HMRC?

No comment

26. Is there any data that it could be useful for HMRC to be able to share with your business in order to aid tax compliance among your customers?

See our comments above about the desirability of HMRC maintaining central records on the MPAA being triggered for an individual.

On a technical point relating to the tapered AA, our 2016 letter – see Appendix 2 – suggested a limited extension in law to the obligation of schemes to provide AA pension savings statements to members, so as to cover those likely (by an identified process) to be in the tapered AA regime. This suggestion was not adopted. If that decision were revised then, depending on the approach adopted, information on members' income might be useful. (However, we note that our 2016 suggestion used as proxy solely information that was already within the employer's or trustees' ownership – we felt that members would prefer not to have the scheme receive income information that might have nothing to do with the employer being made available.) We would note that the changes made to the tapered AA from 2020/21 mean the number of members it now impacts is much reduced; so any extension to obligations in respect of this group might be disproportionate.

27. Are there any international issues specific to your type of business that need to be considered?

While the majority of the pension schemes we advise exchange data on UK based workers, some companies will pay contributions to overseas schemes, and some schemes will receive contributions from overseas employers. Members may transfer out of the UK into overseas schemes, and into UK registered schemes. Any issues that OTS would need to address would concern the tax registered rules for UK schemes and the UK tax rules on permitted tax relief for members located overseas.

If schemes are to pass HMRC information on individual member contributions to UK schemes then it may be possible to note whether a member is UK resident or (if resident overseas) whether the member is entitled to any relief (this would also enable HMRC to check that the relevant limits are not being exceeded over multiple schemes).

28. If reporting of data were to be introduced, would you consider this to be better as a phased approach (for example larger businesses and charities first) or across an entire industry in one go? What are the challenges that would arise with either of these approaches?

As noted from the above responses we would be particularly concerned at the burden for smaller schemes. On that basis, if mandatory reporting of any data is introduced, a phased approach might be preferable. However, it would then need to be recognised that where individuals have data relating to both large and small schemes, they might not gain the simplicity the OTS desires.

Appendix 2

Further detail on our concerns if there were to be any proposal (in order to enable HMRC to populate each member's tax account with Annual Allowance figures) for schemes to calculate and provide pension input amounts (PIAs) for all members of the scheme.

We have previously expressed similar concerns, in letters to HMRC:

- In 2014 when providing feedback to HMRC on the burden created for Scheme Administrators by pension savings statements (PSSs) even under the current regime (although the letter was about PSSs, by definition these require calculation of the PIAs, so the comments below on the complexity of this calculation are relevant).
- In 2016 when we reconfirmed this, when commenting on the regulations which were put in place to deal with the transitional 2015/16 tax year when Pension Input Periods were aligned to the tax year and the introduction of the Tapered Annual Allowance.

Our concerns

- If information is provided to HMRC about a member, we assume that it would also be necessary to provide that information to the member. The PIAs are amounts calculated on complex, sometimes unintuitive, HMRC rules, and have meaning solely in the context of assessing a potential tax charge. They have no meaning for any other purpose; and will usually be very different to what might be communicated to members as illustrations of the benefits they have built up over a year. Providing such figures to members may cause unnecessary confusion, even if accompanied by clear explanations.
- The PIA work has to be done aligned to tax years – whereas other illustrative work in a scheme will be done by scheme year.
- Regardless of whether the figures are told to members: the PIA amounts are irrelevant for most members (many of whom will have built up either a small pension amount over the tax year - which fact can be identified just by high level checks on principle, without detailed work - or a larger pension amount but well within their AA).
- There is already a requirement to issue a PSS containing exact pension input figures, and report to HMRC, if the member has AA pension input in that scheme of more than £40,000. Hence it appears the additional group that needs to be targeted – if focussing on where tax is mostly likely to arise - is those with a Threshold Income in excess of £200,000 and subject to the Tapered Annual Allowance. This is a tiny proportion of the UK taxpayers building up pension benefits (particularly since April 2020 when the Threshold Income level was reduced to its current level). It does not merit a blanket approach. A more proportionate response would be to require additional reporting for a target group. This was proposed in the draft regulations when the Tapered Annual Allowance (on its original rules) was introduced, with our 2016 letter suggesting a practical way forward. Having said this, even this extension seems disproportionate for the now-tiny group involved.
  The other higher risk group is those with more than £40,000 pension input in total across multiple pension schemes. This is still a very small group – and indeed one of the biggest such groups (the NHS schemes) already calculates information across an individual's membership of the two schemes potentially involved, proactively on the usual rules, as if in one scheme.
- As at 31 December 2019, the ONS reported that there were some 3m active members in DB schemes in the UK and TPR reported some 14m in DC schemes. However, despite these numbers of people building up benefits, only around 26,000 paid a pension tax charge in the 2017/18 tax year.

- In many schemes, approximate calculations of PIA are carried out for everyone, so as to identify the subgroup of those close to or above the £40,000 – and then detailed calculations are honed only for that very small subgroup, with PSS provided solely to those who exceed a PIA of £40,000. If HMRC require formal reporting of precise PIA amounts (and possibly a PSS) for all members then approximate calculations will no longer be appropriate for any member, with the substantial additional costs falling on UK business - with no material change in tax receipts.

- Not only are detailed calculations required for future tax years, given the tax regime allows carry forward of unused allowances from the prior 3 tax years, HMRC might, for some members, need more historical information (potentially 2008/09 onwards to get the relevant current carry forward position and so, arguably, would need to collect all this historical PIA information for all members if aiming for a systematic approach). Schemes would not automatically hold these calculated figures so this would be a massive burden; in some circumstances, the data might not be available to carry out such historical calculations.

- We set out some of the particular complexities for DB schemes below

    - For DB, the calculations involve (broadly) calculating exact amounts of a notional “deemed pension” at the beginning and end of the Pension Input Period. These calculated amounts are not figures that are carried out for schemes for any other purpose; they are not always even equal to something with meaning for the scheme (for example the amounts which would be calculated if the member had left the scheme at these dates). They involve determining how the wording in the scheme rules interacted with the required ‘valuation assumptions’, which can have some very unintuitive outcomes. They therefore need to be specified for this purpose only. With the current limited requirements, it is often sufficient to investigate the formulae just enough so as to operate the crude filter described at the start of this section – exact figures would need more work.

    - Even where the majority of the calculations can be automated, schemes will have some members for whom, if PIA calculations are to be exact, it is necessary to carry out manual calculations(eg for transfer in credits, debits on pension sharing, use of “scheme pays” for earlier AA charges; and for small groups with unusual benefit structures, part-timers or service breaks). This can add hugely to the cost of the calculations.

    - In relation to PIAs for earlier years: where there has been a change in the benefit structure, calculations (and analysis of the calculation required) may not exist for previous years. This particular aspect can be a particular problem for cases where there has been a bulk transfer in.

    - In addition to active members, some deferred members can also generate PIAs (if they do not have - or they lose - the “deferred member carve out”) quite often without accruing extra benefit. In many cases these PIAs are small. The point here is that if an obligation were extended to provide information, it would create work not relating to active DB savers but potentially a larger population – still with no AA charge actually due ultimately.

- Although for most DC schemes, the calculations/reporting requirements appear a lot simpler than for DB this is not necessarily the case.

    - the timing of when contributions are paid can result in different figures being recorded/required for tax deductions compared to what is reported in a PSS;

    - there is a statutory requirement to send annual benefit statements to DC members. However the reference year is the scheme year, which does not have to be the tax year, and the timing of when the statements have to be issued does not match tax reporting deadlines.