inPractice

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Scottish Taxpayers

Changes to pension savings – what you and your employees need to know

On 21 February 2018 the Government published its long-awaited newsletter outlining how it intends to deal with pension tax relief for anyone who is a recognised Scottish tax payer – no matter where in the UK the employer is based.

The definition of Scottish tax payer focuses mainly on the location of the person's "main place of residence", being determined by facts such as:

- Where the person's spouse or civil partner lives, if they are married
- If they have children, where they go to school
- Where the majority of their possessions are kept
- Where they are registered to vote.

If you are classed as a Scottish tax payer, your tax code starts with an "S", for example S1150L.

The guidance, although clear and pragmatic, puts the onus firmly on the employee to make sure they are receiving the correct amount of pension tax relief from HMRC, no matter what rate of tax they actually pay, now that Scottish tax payers enjoy five bands of income tax.

Although we have a confirmed position for the 2018/19 tax year, HMRC have committed to working with the devolved UK administrations, as well as Pension Providers, to establish an acceptable longer term solution. So watch this space.

Income Tax rate	Scottish rate 18/19	Rest of UK rate
Starter rate	19% (if you earn between £11,850 and £13,850)	N/A
Basic rate	20% (on earnings between £13,851 and £24,000)	20% (on earnings between £11,851 and £46,350)
Intermediate rate	21% (on earnings between £24,001 and £43,430)	N/A
Higher rate	41% (on earnings between £43,431 and £150,000)	40% (on earnings between £46,351 and £150,000
Top rate	46% (on earnings over £150,000)	45% (on earnings over £150,000)

Source – HMRC website.

The good news, from an employer's perspective, is that little if anything will need to change - for the most common types of employee contribution deduction methods, you will continue on the same basis you use at the moment.

Examples of Pension Schemes Types	What it means for the employer.	What it means for the employee
Net Pay Arrangements Also known as • Salary Exchange or Salary Sacrifice Scheme • Occupational Pension Scheme (gross contribution deducted from gross pay scheme) • Contracted In Money Purchase Scheme (CIMP) Plus some Master Trust arrangements – e.g. NOW: Pensions and The People's Pension.	Continue as you were - pension tax relief on these contributions will still be given at the employees marginal rate of tax - including at the new rates of Scottish tax.	No change - pension tax relief on these contributions will still be given at the employees marginal rate of tax - including at the new rates of Scottish tax.
Relief at Source "Relief at source" or net contribution deducted from net pay, Group Personal Pension schemes, National Employment Savings Trust (NEST).	Continue as you were - the pension provider will still reclaim the Basic Rate (20%) of tax back from HMRC no matter what rate(s) of income tax that employee actually pays from 6 April 2018.	Action needed - if an employee falls into the 21% or above bracket, they will have to reclaim the balance tax relief due themselves from HMRC.

So, whilst the good news is that those employees who pay nil, 19 or 20 percent income tax still get the full 20% tax relief added to their policy by HMRC, those who fall into the 21, 41 or 46 percent bands will have to make a claim to HMRC to have the difference between their rate and 20% repaid via an adjustment to their tax code.

We appreciate that, if an employee is a 41 or 46 percent tax payer, this exercise is well worth the effort. However, there is a question mark over the willingness of individuals who fall into the "Intermediate rate" above to make a claim for the extra 1% they are entitled to. According to the Scottish Government, there are around 874,000 people in this bracket who work for employers based in the UK.

Intermediate Rate Payer example

If, for example, we assume an employee earns £26,000 per annum and pays 3% (gross) of their full basic salary - from April 2018 the extra 1% tax relief they are entitled to amounts to around 65 pence per month, or approximately £8 per year. They would be entitled to make this claim from late Spring / early Summer 2019, in respect of the 18/19 tax year. The adjustment to their tax code being effective shortly after.

With this in mind and dependent on how things evolve in the forthcoming years - it may be best to wait for a few years, after the event and make one backdated claim rather than submitting a claim each and every year. At present, you are able to retrospectively reclaim tax relief in respect of the previous 4 years.

Action Point

Good business practice would dictate that you help your employees understand this and point them in the right direction to claim the monies they are due.

Pension scheme members will be able to claim these additional monies by contacting HMRC directly, even if they don't currently complete an annual Self Assessment tax return.

Search for "Tax on your private pension contributions" and navigate to the gov.uk site.

Although it is widely acknowledged that the Scottish tax payer could now be the most generous income tax payer in the UK, they also in turn have the ability to claim back the most in pension tax relief monies and indeed have the lowest income threshold to reach before being able to claim back the highest rates.

A modest silver lining to the ever - evolving Scottish income tax cloud! As more detail emerges we will keep you informed .

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