

ANNEX A – REVIEW OF PENSIONER TAXATION

Set out below is the Government's response to the administrative and policy recommendations made by the OTS in their review of pensioner taxation.

Improving tax administration for pensioners

The OTS review recommended that DWP issue a P60 style form stating the amount of taxable income (from the State Pension and other taxable benefits) that each pensioner was entitled to in the previous tax year. The OTS acknowledged that this would be a significant and costly undertaking. However, the Government agrees that more could be done. HMRC will therefore look at providing this information to pensioners through the tax statements the Government plans to issue from 2014/15. These tax statements will be provided to around 20 million taxpayers, including pensioners, and where relevant will contain information on state pension and other pension income. In the longer term as HMRC develops its digital services this information will become available to more people online.

The review also found that pensioners are frequently sent multiple PAYE coding notices for each of their different sources of income and this causes confusion and anxiety. The OTS recommended that HMRC introduce a single composite PAYE coding notice to aggregate the various individual codes for each source of income and reconcile this to the personal allowance. HMRC will review how composite PAYE coding notices could be delivered. HMRC will need to assess the costs, benefits and risks of this proposal in light of the wider shift to digital services. They will continue to keep the OTS updated on their work in this area.

The OTS also recommended that HMRC redesigns form R85, on which non-taxpayers can apply to have their interest on savings paid gross, as well as the accompanying help sheet. HMRC's recent user testing found that most customers found the form straightforward to complete. However, HMRC will consider whether it can improve the help sheet and, as suggested in the OTS review, is also exploring with the British Bankers Association and the Building Societies Association whether the R85 procedure can be made easier for eligible savers.

The OTS also suggested that HMRC considers annual checks to ensure savers are not over or underpaying tax, by matching savings data and taxpayers records. Whilst the Government will keep this idea under review, this would not be achievable without a great deal of system development and cost. HMRC is therefore not in a position to proceed with this recommendation in the short term.

The review suggested that HMRC allow people to submit Form R40 electronically. Form R40 reclaims overpaid tax on savings income. HMRC are currently exploring ways to allow people to claim annual repayments on line via Self Assessment without becoming subject to the self assessment penalty regime, which would be an alternative way of enabling electronic claims for a tax refund.

Finally, the OTS also recommended a review of Government communications to pensioners about how the state pension is taxed, as well as clearer information about how the personal allowance and tax codes operate. HMRC and DWP have formed a steering group to review pensioner communications which will continue to facilitate joint engagement.

Policy recommendations

The OTS also made a number of recommendations to simplify the personal tax system for pensioners, including:

- removing the 10 per cent starting rate for savings, and increasing ISA limits;
- abolishing the blind persons allowance and replacing it with a direct grant;
- simplifying the married couples allowance; and
- abolishing the MIRAS relief.

The Government has decided not to remove the 10 per cent starting rate for savings. The difficulty of finding a viable and appropriately targeted compensation package would make removal of this lower rate inappropriate during a period which is already difficult for savers. The Government wants to promote a savings culture and support savers, and the retention of this lower rate will ensure that savers on low earned income, including many pensioners, will not lose out.

Similarly, the Government does not intend to remove the Blind Person's Allowance. The allowance provides an additional £2,100 of tax free income - worth up to £420 to a basic rate taxpayer. Abolition of the allowance would have a significant impact on some individuals. However, the Government agrees that the claims process could be improved. HMRC will therefore explore what steps can be taken to make the process for claiming the allowance easier.

The OTS also recommended that the married couple's allowance should be simplified. The Government believes that any changes to this allowance

would most sensibly fit within any wider changes to the way that marriage is recognised in the tax or benefit system.

Finally, the OTS suggested that a little used relief for interest on loans for life annuities taken out by pensioners before April 1999 be abolished (MIRAS relief). This would remove a significant number of pages from tax legislation. The Government agrees with the recommendation. The Chancellor announced at Budget 2013 that the Government will consult during the summer on the future impact that abolishing this relief would have.