1.2 million low earners to see boost in take-home pay

- 1.2 million low earners to see a boost to their take-home pay from 2025

- To make it easier for people to sponsor refugees under the Homes for Ukraine scheme, payments made will be tax-free and corporate landlords will have some of their tax bills waived

- Consultation published on Digitalising Business Rates to help deliver a more responsive system to better target reliefs in the future, part of the government's Business Rates Review

Around 1.2 million low earners will receive top-ups to their take-home pay from 2025 which could be worth hundreds of pounds a year.

Today the government has published legislation confirming that low earners who save through a Net Pay Arrangement (NPA) will get the same level of government top-up as those who use Relief at Source schemes.

For NPAs, pension contributions are deducted before income tax is calculated, whereas with Relief at Source it is after.

1.2 million people are eligible for this pay boost – with 200,000 set to see a £100 increase in their take-home pay. The average beneficiary will receive an extra £53 a year.

75% of those to benefit are women, whilst 11% are based in the North-West and Merseyside and 12% are in London.

Financial Secretary to the Treasury Lucy Frazer said:

> A quirk in our pensions tax system has meant that over a million low-earners have lost out on government top-ups to their pensions, resulting in comparatively less take home pay.
>
> We are correcting this injustice so low earners will get the same level of government support, no matter what type of pension they use.

Since 2015, people saving through a Net Pay Arrangement (NPA) have had less take home pay compared to similar earning savers who use a Relief at Source scheme. This is because those using the latter type of pension scheme receive a 20% top-up from the government on their savings, whilst those using NPAs receive tax relief at their marginal rate – 0%.

Today the government has published legislation confirming that it has rectified this anomaly, as low earning pension savers will receive similar top-ups regardless of what pension scheme they are using. Beneficiaries will receive their top-ups directly into their bank accounts from 2025 and HMRC will be notifying those who are eligible then. The government has pledged to deliver these changes in full and on time and will ensure the complex nature of these IT changes are ready to deliver this wide-impacting change.

The announcement comes as a number of documents are published by the government today, including draft legislation for the Finance Bill 2022-23 for technical consultation.

As part of this, the government is making it easier for people to get involved with the Homes for Ukraine scheme. The government confirmed today that the £350 payments made by Local Authorities to sponsors under the Homes for Ukraine scheme will be exempt from income tax and corporation tax. The government has also confirmed that corporate landlords will not face any unfair obstacles or immediate tax burdens if they choose to make their homes available for refugees fleeing Putin's war in Ukraine.

Under usual rules, companies who do not use their residential properties for a commercial reason can face the Annual Tax on Enveloped Dwellings (ATED) or a 15% rate of Stamp Duty Land Tax (SDLT).

Draft legislation published today confirms that company-owned properties made available to refugees under the Homes for Ukraine scheme will receive full tax relief from ATED and the 15% SDLT rate – potentially saving £3800 on a property worth between £500,000 and £1 million.

The government has also published its plans for how it will translate the Pillar Two global tax reforms into domestic law. These rules are set to apply from 31 December 2023 and follow the historic two-pillared OECD agreement of 137 countries to address the tax challenges that arise from the global digital economy. Pillar Two means large multinationals will be subject to a minimum 15% rate of tax on profit in each country they operate in, whilst Pillar One ensures they pay their fair share of tax in the countries where they do business.

Also as part of today's announcements, the government has published draft legislation to:

- Introduce a package of Air Passenger Duty (APD) reforms to bolster air connectivity within the Union, through a 50% cut in domestic APD (benefiting 9 million passengers), and further aligning APD with our environmental objectives by adding a new ultra-long haul distance band, as announced at Autumn Budget 2021.

- Amend the qualifying Research and Development (R&D) expenditure to include data and cloud costs, to refocus the reliefs towards innovation in the UK, and to implement measures to improve compliance, as announced at Autumn Budget 2021.

- Make the Capital Gains Tax (CGT) process easier for separating and divorcing couples, who currently only have until the end of each tax year to agree and transfer their assets before facing a potential CGT charge, which can leave those separating towards the end of the year with very little time available to arrange their financial affairs. New legislation will mean that they have three full tax years, effective from April 2023. This follows a recommendation from the Office of Tax Simplification.

A consultation on Digitalising Business Rates (DBR) has also been published, seeking views on proposals to link business rates data held by billing authorities with tax data held by HMRC, to create opportunities to better target business rates policy, including reliefs, in the future by having access to more comprehensive data. This is part of the government's Business Rates Review, which concluded at Autumn Budget 2021 and included further reforms to deliver more frequent revaluations, freezing the multiplier in 2022-23 to put the brakes on rate increases, and 50% business rates relief for retail, hospitality and leisure firms.

Further information

- For a full list of announcements from today's Legislation Day please see the Written Ministerial Statement here
- The 200,000 people eligible for a top-up of £100 or more is based on the total number of people in the UK who contribute at least £500 every year into their Net Pay Arrangement pension but have no tax relief on that contribution.
- For average tax savings as a result of Homes for Ukraine ATED and 15% SDLT tax relief see here: Annual Tax on Enveloped Dwellings
- Read the conclusion to the government's Business Rates Review
- Read the OECD's model rules
- The government is committed, where possible, to publishing most tax legislation in draft for technical consultation before the relevant Finance Bill is introduced into Parliament. This allows for transparent scrutiny of tax measures, giving greater certainty and stability to taxpayers.
- The government announced its intention to legislate for the Homes for Ukraine tax-related measures in a WMS on 31 March. Today the government has confirmed this in draft legislation. Read March's WMS

Worked example on pension top-ups

Alex and Sam are two employees who earn below the personal allowance. Alex is a member of a pension scheme using net pay arrangements and Sam is a member of a pension scheme using RAS.

Both want £500 to go into their scheme.

Alex (NPA) has the full £500 contribution deducted before the tax rules are applied to her earnings. She does not have to use any of her personal allowances in order to pay her pension contributions out of untaxed income.

Once her pension contribution is deducted the rest of her earnings are taxed but there is no tax to pay. All of the £500 deducted from her earnings goes to the pension scheme.

Sam (RAS) has no tax to pay on her earnings as they are below the personal allowance. The equivalent contribution is paid to her pension scheme as if she had had basic rate tax at 20% deducted from the full £500 contribution. Out of £500 of earnings, £400 is paid to Sam’s RAS pension scheme as a contribution. Although no tax is paid to HMRC, the RAS pension provider is still entitled to claim £100 in tax relief from HMRC so Sam will have £500 in her scheme.

Both Alex and Sam have £500 in their pension scheme. As in the previous example, Alex has had £500 deducted from her earnings but in this case Sam has had only £400 deducted from her earnings. Sam has more money in her pay packet but she has used up more of her personal allowance to make contributions out of her untaxed earnings.

Impact of the Low Earners Top-Up Policy

From 2025, Alex would be eligible for a top-up of £100 to be paid into her bank account. Alex will receive a letter from HMRC notifying her of eligibility and will need to provide her bank account details to HMRC to allow HMRC to make the payment. In future years, HMRC should be able to make the payment without Alex needing to supply details.