



GOVERNMENT SERVICES

Administrative  
Burdens – HMRC  
Measurement  
Project

Report by Tax Area  
Part 19: Pensions

20 March 2006  
Restricted – Commercial

TAX



**HMRC**

**Administrative Burdens -  
HMRC Measurement Project  
Report by Tax Area  
Part 19: Pensions**

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KPMG LLP  
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## **Contents**

<b>1</b>	<b>How to use this report</b>	<b>2</b>
1.1	Volume 1	2
1.2	Volume 2	2
1.3	Table conventions	3
<b>2</b>	<b>Executive summary</b>	<b>3</b>
<b>3</b>	<b>Introduction</b>	<b>5</b>
3.1	Background	5
3.2	Overview of regulation affecting the private sector	5
3.3	Approach and methodology	6
<b>4</b>	<b>Administrative burden on business</b>	<b>7</b>
4.1	Overview	7
4.2	Administrative burden by type of Information Obligation	7
4.3	Administrative burden by origin of Information Obligation	8
4.4	Administrative burden by business size	9
4.5	Administrative burden by most burdensome Information Obligation	10
4.6	Administrative burden by administrative activity and forms	11
4.7	Administrative burden by Information Obligations to third parties	13
<b>5</b>	<b>Other findings</b>	<b>14</b>
5.1	Irritations	14
5.2	Simplifications	14
5.3	Examples of best practice	14



## **Tables**

Table 1: Number of Regulations, HMRC Forms, Information Obligations and Data Requirements by Tax Area.....	6
Table 2: Administrative burden – overview.....	7
Table 3: Burden by Information Obligation type.....	8
Table 4: Burden by business size.....	9
Table 5: Top 9 obligations by total administrative burden .....	10
Table 6: Summary of burden by standard activity type .....	12
Table 7: Breakdown of administrative burden of obligations to third parties.....	13

# 1 How to use this report

This report should be read in conjunction with the main report on the Administrative Burdens - HMRC Measurement project. Both reports seek to give an overview of the model that has been built to measure the tax administrative burden for UK business. The reports give examples of some early analysis of areas of high burden, outline how the model was built and the size and format of the resulting data framework.

Like the UK tax system the model is large and complex. Thus the reports can only give a flavour of the model's full potential. The detailed analysis looking at specific pieces of tax regulation, the setting of the baseline and targets, how to link the administrative burden to the full range of impact assessments and wider policy initiatives will be done by HMRC as it takes the model forward, using the data framework.

For ease of reference, the main report is hereafter referred to as Volume 1 and this report, by tax area, is hereafter referred to as Volume 2.

## 1.1 Volume 1

Volume 1 is a good starting point for an overview of the model and the dynamics of the tax administration burden for UK business. The main body of Volume 1 provides a brief description of the background to the model, how the model was built, some examples of early analysis at a total level and a summary of the overall themes arising from business interviews. This report uses, from time to time, technical terms set out in the Standard Cost Model. The Glossary to Volume 1 seeks to give a practical explanation of each term.

There are a series of Annexes to Volume 1:

- **Annex A** is a detailed description of the methodology and how the model was applied in practice
- **Annex B** provides an example of the guide used to interview businesses
- **Annex C** provides a summary of the overall themes arising from interviews with businesses. The focus is on issues that do not relate to one specific tax but were raised in the context of interviews on many different subjects
- **Annex D** addresses demarcation issues: what regulation is included in the model and what is not

## 1.2 Volume 2

Volume 2 should be read in conjunction with Volume 1 for details of key terms used in the model and early analysis.

Volume 2 is in 28 Parts, one for each of the tax areas, described in further detail below. Volume 2 gives an overview of the administrative burden, early analysis and business

feedback for each tax area. Volume 2 can only give a flavour of the model's potential. It is already clear that the early analysis may prompt further questions. The further detailed analysis looking at specific pieces of tax regulation will be done by HMRC as it takes the model forward, using the data framework.

The tax areas are:

Part 1	Aggregates Levy	Part 15	Inheritance Tax
Part 2	Air Passenger Duty	Part 16	Insurance Premium Tax
Part 3	Capital Allowances	Part 17	Intrastat
Part 4	Capital Gains Tax	Part 18	Landfill Tax
Part 5	Climate Change Levy	Part 19	Pensions
Part 6	Construction Industry Scheme	Part 20	Petroleum Revenue Tax
Part 7	Corporation Tax	Part 21	Stamp Duty
Part 8	Customs	Part 22	Stamp Duty Land Tax
Part 9	Double Tax Treaties	Part 23	Stamp Duty Reserve Tax
Part 10	EC Sales List	Part 24	Tax Credits
Part 11	Employer Taxes	Part 25	Tax Management Provisions
Part 12	Excise Duties	Part 26	Tonnage Tax
Part 13	Gaming Duties	Part 27	Value Added Tax
Part 14	Income Tax for Businesses	Part 28	Withholding Tax

### 1.3 **Table conventions**

The early analysis in the reports is based on tables of monetary amounts and percentages derived from the data framework. These tables look at the administrative burden in a number of ways, at different levels of detail and for different areas of tax (some large, some small), to give examples of how the model can be used. This means that different measurement units are used for the monetary amounts and percentages, depending on which aspect of the model is being looked at. For example, some tables show monetary amounts to the nearest £ million and percentages in whole numbers. Other tables use different conventions. The overarching aim is that a monetary amount or percentage is shown and that the tables are as helpful as possible.

The underlying data held in the data framework is extremely detailed and has been rounded up to prepare the tables. Due to complex roundings not all the tables, as presented, will add up to the total shown on the table.

A dash '-' in the tables indicates a genuine zero value. By contrast, the figure '0' indicates a negligible number in the context of that table.

## 2 **Executive summary**

The administrative burden of pensions is £294m, 6% of the total burden placed on business.

The burden is made up as follows:

	£000	%
Internal costs	43,158	14.67%
Acquisition costs	6,795	2.31%
External costs	244,316	83.02%
<b>Total burden</b>	<b>294,269</b>	<b>100.00%</b>

There is a high proportion of external cost here because many occupational pension schemes are handled by third party administrators.

Pensions are currently governed by eight different tax regimes. However, from 6 April 2006 new pensions rules come into effect. From this date, there will be one set of rules for all registered pension schemes.

Given the diversity of the current pensions regimes, there is no single obligation or type of obligation that dominates the administrative burden. The value of the measurement in this area is therefore at the detailed level in the data framework itself, rather than in summary extracts from it, because aspects of the 'old' regime also feature in the new regime.

As the pensions regime will shortly be radically changed, HMRC should consider updating the model to reflect the new regime.

## 3 Introduction

### 3.1 Background

See Volume 1 Section 3.1.

### 3.2 Overview of regulation affecting the private sector

#### 3.2.1 Description of the scope and objectives of tax area

Currently, pensions are governed by eight different tax regimes from various sources of legislation. Each contains rules limiting the amount an individual can contribute to a pension scheme and the benefits a scheme can pay out. New pensions rules come into effect on 6 April 2006 that will radically alter the pensions obligations. From that date there will be a single set of obligations for all registered pension schemes. The relevant legislation is contained in Finance Act 2004.

HMRC regulation of pensions falls largely into two broad categories:

##### 3.2.1.1 *Scheme approval*

- actions required for pension schemes to gain tax-approved status. (Pension schemes meeting HMRC approval requirements qualify for a range of valuable tax reliefs on contributions, investments and, to a lesser extent, benefits. Non-approved schemes, not meeting HMRC requirements, enjoy less favourable tax treatment.)
- actions needed for schemes to maintain tax-approved status
- actions needed for schemes to gain the reliefs to which tax-approved status entitles them

##### 3.2.1.2 *Contracting-out*

- actions required for pension schemes/individuals to contract out of the State Second Pension scheme. ('Contracting-out' is an arrangement whereby an individual's entitlement to the State Second Pension is given up in return for a reduction or rebate of National Insurance contributions. The rebate is used to provide alternative benefits under an occupational or personal pension scheme, meeting strict criteria.)
- actions needed to maintain contracted-out status
- actions upon cessation of contracted-out status

These actions will vary according to the nature of the pension scheme concerned. The main classes are as follows:

- Class 1 - approved occupational pension schemes
- Class 2 - individual pension arrangements (e.g. personal pension schemes)
- Class 3 - free-standing additional voluntary contribution schemes

- Class 4 - unapproved occupational pension schemes

The first two categories dominate overwhelmingly in terms of numbers of schemes involved and the level of regulation directed at them.

Those affected by HMRC regulations fall largely into the following categories:

- occupational scheme trustees (Classes 1 and 4)
- employers (Classes 1 and 4)
- third-party administrators (Classes 1, 2, 3 and 4)

The degree of involvement of employers and trustees will vary considerably, as much work is routinely outsourced to third party pension administrators.

### 3.2.2 **Summary statistics relating to the regulations included within the scope of the measurement exercise**

**Table 1: Number of Regulations, HMRC Forms, Information Obligations and Data Requirements by Tax Area**

Tax Area	Number of sources of regulations	Number of forms	Number of Information Obligations	Number of Data Requirements
Pensions	17	40	157	381
<b>HMRC Total</b>		<b>279</b>	<b>2,692</b>	<b>6,614</b>

## 3.3 **Approach and methodology**

### 3.3.1 **Overall methodology**

See Volume 1 Section 3.2 and Annex A.

### 3.3.2 **Major methodological issues specific to tax area**

The model measures the administrative burden of the legislation in force at May 2005 and therefore does not measure the impact of the new rules which come into effect on 6 April 2006.

## 4 Administrative burden on business

### 4.1 Overview

#### 4.1.1 Summary of the administrative burden results

**Table 2: Administrative burden – overview**

Tax Area	Total administrative burden	
	£m	Share of HMRC total
Pensions	294	6%
<b>HMRC Total</b>	<b>5,100</b>	<b>100%</b>

The administrative burden of pensions is 6% of the total burden placed on business.

### 4.2 Administrative burden by type of Information Obligation

Table 3 shows the number of IOs analysed by type of IO and the administrative burden for each type of IO. As set out in Volume 1 Section 3.2.2, the model uses 13 IO types, each of which represent a particular process. They are thus very helpful in seeing the overall dynamics in the tax system.

Table 3 uses the terminology in the SCM; please refer to Volume 1 – Glossary for a practical explanation of each term.

**Table 3: Burden by Information Obligation type**

Information Obligation type	Admin burden £000	Share of total admin burden for tax area	Number of IOs	Share of total IOs for tax area
Applications for permission for or exemption from	85,831	29.17%	29	18.47%
Providing statutory information for third parties	57,116	19.41%	32	20.38%
Keeping commercial emergency plans and programmes updated, etc ...	52,636	17.89%	6	3.82%
Applications for subsidies, grants, allowances or credits for ...	39,196	13.32%	7	4.46%
Notification of activities/registration	27,417	9.32%	31	19.75%
Returns and reports	20,636	7.01%	5	3.18%
Applications for authorisation	10,046	3.41%	7	4.46%
Cooperating with audits/inspections of ...	1,376	0.47%	35	22.29%
Statutory labelling for the third parties	15	0.01%	1	0.64%
Framing complaints and appeals	0	0.00%	4	2.55%
Carrying out inspections of ...	-	-	-	-
Entry in a register	-	-	-	-
Application for Guidance	-	-	-	-
<b>Total</b>	<b>294,270</b>	<b>100.00%</b>	<b>157</b>	<b>100.00%</b>

<b>HMRC total</b>	<b>5,100,094</b>		<b>2,692</b>	
<b>Share of HMRC total</b>	<b>5.77%</b>		<b>5.83%</b>	

The key burdens arising from the pensions regulations are applications for permission or exemption from certain requirements within the legislation. This IO type accounts for 29% of the total pensions burden on UK businesses and represents 18% of the total number of obligations.

As noted, the pensions regulations are currently split across eight different tax regimes. It is difficult to draw meaningful analysis or conclusions from the above table due to the sheer volume and diversity of the regulations included within this tax area.

#### 4.3 Administrative burden by origin of Information Obligation

The pensions IOs are all of domestic origin.

#### 4.4 Administrative burden by business size

Table 4 shows the administrative burden broken down by business size.

**Table 4: Burden by business size**

Tax Area	Total administrative burden					
	Nano £m	Micro £m	Small £m	Medium £m	Large £m	Total £m
Pensions	-	186	41	14	53	<b>294</b>
<b>HMRC total</b>	<b>1,216</b>	<b>1,952</b>	<b>925</b>	<b>364</b>	<b>642</b>	<b>5,100</b>

*How the table is derived from the model*

As outlined in Volume 1 Section 3.2.3.2, the administrative burden is a function of price and quantity. Thus the burden shown in a particular size segment is driven by the number of business affected by the IOs in that size segment as much as by the price for that size segment.

As outlined in Volume 1 Section 3.2.3.1, considerable efforts have been made to ensure the population numbers are not unreasonable at a total level. As outlined in Volume 1 Section 3.2.3.1 and Section 3.3, the allocation of total population to segment populations has been done using a generic model. This means that the segment population in the model may be out of line with the segment population in practice. This means that Table 4, the analysis of the burden by size segment, needs to be interpreted with care.

*Interpreting the table*

The weighting of the pensions administrative burden is towards micro businesses because a large proportion of occupational pension schemes have only a small number of members. However, the personal pension providers are all large, hence the increase in burden for the large segment. There are no costs recorded in the nano segment as the pension decisions made by a self-employed individual are made on a personal basis and are not a business burden. Measurement of this burden is therefore outside of the scope of the project.

#### 4.5 Administrative burden by most burdensome Information Obligation

**Table 5: Top 9 obligations by total administrative burden**

Information Obligation	Total administrative burden	Internal cost	External cost	Acquisition cost
	£000	£000	£000	£000
Member choosing an Appropriate Personal Pension (APP) - notice from provider	79,771	21,293	58,478	-
Recovery where rebates paid by employer exceed NI contribution savings	37,201	5,292	31,909	-
Documents/information relating to scheme transactions to be retained for 6 years	36,076	3,917	32,057	102
Trustees to notify HMRC where Contributions Equivalent Premium (CEP) is due	20,450	51	20,318	81
Trustees to elect that Contributions Equivalent Premiums (CEPs) are paid	20,369	51	20,318	-
Administrator of Occupational Pension Scheme to keep prescribed records	16,393	10,140	-	6,253
Approval of multi-member pension scheme	9,682	517	9,165	-
Provision of information to administrator of 'leading scheme' where a scheme is the main scheme but not the 'leading scheme' in relation to an employee	5,835	81	5,731	23
New administrator of an approved occupational pension scheme must notify all administrators of FSAVC contracts providing benefits additional to the scheme	5,768	14	5,731	23
<b>Total</b>	<b>231,544</b>	<b>41,356</b>	<b>183,707</b>	<b>6,481</b>
<b>Share of total for tax area</b>	<b>78.68%</b>	<b>95.82%</b>	<b>75.19%</b>	<b>95.39%</b>
<b>Total for tax area</b>	<b>294,270</b>	<b>43,158</b>	<b>244,316</b>	<b>6,795</b>

The key burden on business is the IO where a member decides to contract-out via an Appropriate Personal Pension scheme ('APP'). The member's chosen APP is determined by notice from both the provider of the APP and the member. This joint notice is made by way of a form.

The second most burdensome IO is an application for relief. Where employers are required to pay more in contracting-out rebates to a personal pension scheme than they actually recover in the National Insurance deduction from the individuals' remuneration, they can apply to HMRC for recovery of the balance.

The third IO is the requirement for all administrators, trustees, employers or any person providing administrative services to an occupational pension scheme to retain pension scheme transaction documentation for six years. Although the unit cost of record retention is relatively low, the number of records generated and therefore requiring retention is a significant number, leading to this obligation featuring high in the table above.

#### **4.6 Administrative burden by administrative activity and forms**

Table 6 analyses the administrative burden into the three component price parts (internal costs, external costs and acquisition costs). It also analyses internal costs across the 16 administrative activities set out in the SCM. Table 6 uses the description of administrative activities in the SCM. A practical interpretation of those activities is given in Volume 1 – Glossary.

The first part of the table analyses internal costs. The second part of the table analyses the total burden into the three component parts of price.

**Table 6: Summary of burden by standard activity type**

Activity	Form-filling related		Non form-filling related		Total	
	£000	%	£000	%	£000	%
Familiarisation with the information obligation	22	0.05%	3	0.01%	25	0.06%
Information retrieval	5,126	11.88%	1,866	4.32%	6,992	16.20%
Assessment	83	0.19%	3	0.01%	85	0.20%
Calculation	-	-	149	0.35%	149	0.35%
Presentation of figures	118	0.27%	1,403	3.25%	1,521	3.52%
Checking	6,532	15.14%	1,676	3.88%	8,208	19.02%
Correction	-	-	-	-	-	-
Description	5,643	13.08%	866	2.01%	6,509	15.08%
Settlement/payment	-	0.00%	0	0.00%	0	0.00%
Internal meetings	2,760	6.39%	0	0.00%	2,760	6.39%
External meetings	1,209	2.80%	925	2.14%	2,134	4.94%
Inspection by public authorities	-	-	3	0.01%	3	0.01%
Correction resulting from inspection by public authorities	-	-	-	-	-	-
Training	-	-	-	-	-	-
Copying, distribution, filing, etc.	290	0.67%	14,085	32.63%	14,375	33.31%
Reporting/submitting information	311	0.72%	87	0.20%	398	0.92%
<b>Internal total</b>	<b>22,094</b>	<b>51.19%</b>	<b>21,064</b>	<b>48.81%</b>	<b>43,158</b>	<b>100.00%</b>

		Share of total burden %		Share of total burden %		Share of total burden %
<b>Internal total</b>	<b>22,094</b>	<b>7.51%</b>	<b>21,064</b>	<b>7.16%</b>	<b>43,158</b>	<b>14.67%</b>
<b>Acquisition costs</b>	<b>56</b>	<b>0.02%</b>	<b>6,739</b>	<b>2.29%</b>	<b>6,795</b>	<b>2.31%</b>
<b>External costs</b>	<b>100,602</b>	<b>34.19%</b>	<b>143,714</b>	<b>48.84%</b>	<b>244,316</b>	<b>83.02%</b>
<b>Total burden</b>	<b>122,752</b>	<b>41.71%</b>	<b>171,517</b>	<b>58.29%</b>	<b>294,270</b>	<b>100.00%</b>

As noted, pensions are governed by eight different tax regimes and cover a wide range of obligations. There is no single type of obligation that dominates the administrative burden. As a consequence, the table above does not show any particular patterns or trends.

## 4.7 Administrative burden by Information Obligations to third parties

**Table 7: Breakdown of administrative burden of obligations to third parties**

Tax Area	Total administrative burden			
	Obligations to third parties	Share of HMRC total	All other obligations	Share of HMRC total
	£m		£m	
Pensions	57	1%	237	5%
<b>HMRC Total</b>	<b>892</b>	<b>17%</b>	<b>4,208</b>	<b>83%</b>

There are several IOs within pensions to provide information to third parties, for example, trustees of 'Pension Fund Pooling Schemes', providing certificates to the trustees of participating schemes and provision of information relating to 'pension sharing orders' (orders to split a member's benefits on a divorce).

Obligations to third parties represent 19% of the total pensions burden (refer to Table 3).

## 5 **Other findings**

This section summarises the feedback recorded from businesses interviewed as part of the project work. It therefore represents those businesses' views rather than the views of HMRC or KPMG.

### 5.1 **Irritations**

There was concern amongst some interviewees that certain irregular HMRC requests for information could not be complied with within the 28 day period provided. One business also felt that the HMRC response was unhelpful when faults were discovered. For this business, a large fine was imposed for only a small number of lost forms. On appeal, the fine was eventually significantly reduced.

New pensions simplification rules come into effect in April 2006. However, guidance was still being issued by HMRC in January 2006 which gives business only a short time to review the guidance before the rules apply. Most interviewees felt that the guidance is unclear and that there is insufficient time to make the required changes to software to cope with the changes.

One business felt that much of the information required by HMRC is necessary to run the pension scheme for the business anyway and is not just produced for HMRC.

### 5.2 **Simplifications**

One business felt that Information Obligations should be removed if HMRC do not routinely require the information.

### 5.3 **Examples of best practice**

None.

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