Representation from the Chartered Institute of Taxation
for Finance Bill 2025-26 Public Bill Committee

Clauses 13-27 and 57

Employment Taxes and Pensions

Executive summary

Clause 13 (Enterprise management incentives)

We welcome the increases in the limits for EMI options granted in Great Britain but believe that the drafting of new paragraph 37A, which is intended to extend the eligibility period of eligible options granted before 6 April 2026 from 10 to 15 years, is overly restrictive and appears to not achieve its intended aim.

Clauses 14-15 (Enterprise investment scheme and venture capital trusts)

These clauses achieve their aims, and we have no comments on the legislation.

Clause 16 (CSOP schemes and EMI: PISCES shares)

The changes which will permit a Private Intermittent Securities and Capital Exchange System (PISCES) trading event to be an exercisable event are helpful and we have no comments on the legislation.

Clauses 17-19 (Employment income relating to cars etc)

While we welcome the deferral of the changes to employee car ownership schemes to 2030 and the inclusion of transitional rules, we do have some concerns with new section 116A, which is widely drawn as regards to whom it applies. Clause 18 partially addresses those concerns but without clear guidance as regards interpretation of the terms used there is the potential for the new rules to potentially apply to ordinary arm's length commercial arrangements.

Clause 20 (Employer funded eye tests, flu vaccinations, etc)

We welcome this legislation, which will exempt a number of minor benefits-in-kind from income tax and National Insurance. We recommend a review of other benefit-in-kind exemptions that distinguish between employer provision and employer reimbursement, and so far as is practical remove those distinctions too.

Clause 21 (Homeworking expenses)

While disallowing a deduction for the extra costs of working from home simplifies administration for HMRC's, it is likely to disadvantage low-income workers and employees of smaller businesses, as it will deny employees that are not reimbursed by their employer income tax relief on their homeworking expenses. Instead of withdrawing this tax relief we would recommend a comprehensive review of the homeworking, and travel and subsistence rules, with the intention of introducing rules that better reflect today's working environment

Clauses 22-23 (Earnings for duties not performed etc)

We have no comments on the legislation, which appear to meet its objective.

Clause 24 (Umbrella companies)

This clause will make recruitment agencies jointly and severally liable to pay any amount payable under PAYE when they supply workers via umbrella companies. We welcome action in this area but have two major concerns: an absence of safeguards and the wide definition of a 'purported umbrella company'. Additionally, clarity is needed as regards the order of application of Chapters 7 to 11 of ITEPA 2003.

Clauses 25-27 (Loan charge settlement scheme)

This legislation gives HMRC the power to set up a new loan charge settlement opportunity, as recommended by the independent loan charge review conducted by Ray McCann. While we welcome the new settlement scheme as a step forward in removing some of the barriers preventing taxpayers from resolving their loan charge liabilities, we are concerned that if the more generous terms are not extended to people who have already settled/fully paid or who have disguised remuneration loan arrangements outside the scope of the loan charge years, it risks undermining perceptions of fairness, which will harm future tax compliance and damage trust in the tax system.

Clause 57 (Pensions - collective money purchase schemes and Master Trust schemes)

We welcome these changes. The power included in the Bill to make provision about collective money purchase schemes will be important as once the government finalises its policy on retirement collective defined contribution schemes, HMRC will need flexibility to adjust the pension tax rules to support its operation.

1. Clause 13 (Enterprise management incentives: thresholds and period for exercise)

Outline of the measure

1.1. Enterprise Management Incentives (EMI) is a tax-advantaged share scheme introduced in 2000, designed to encourage employee share ownership. This clause increases the EMI scheme limits:

- The limit on company options will be increased from £3 million to £6 million
- The limit on gross assets will be increased from £30 million to £120 million
- The limit on the number of employees will be increased from 250 to 500
- The limit on the exercise period will be increased from 10 years to 15 years. This can be applied retrospectively to eligible existing options

1.2. The changes take effect from 6 April 2026. The changes do not apply to Northern Ireland.

Comments

1.3. We welcome the increases in the limits for EMI options granted in Great Britain.

1.4. We do however have a concern with the drafting of new paragraph 37A, which is intended to extend the eligibility period of eligible options granted before 6 April 2026 from 10 to 15

years. The paragraph provides that if a fixed-date qualifying option is varied, then the varied option, for the purposes of the EMI Code, continues to be a qualifying option and is to be treated as having been granted in its varied form subject to certain conditions being met.

1.5. Our view is that this paragraph has been drafted in a very restrictive way and will not achieve what was announced on Budget day. This is because it only permits an option exercisable on a fixed date by reference to the date of grant, e.g. the ninth anniversary of the date of grant, to be amended to change the date on which the option is capable of being exercised to a later fixed date, e.g. the fourteenth anniversary date of grant. We think it would be better for the legislation to be drafted so that it allows a company to delay the lapse date to a non-fixed date, e.g. a later date no later than the fifteenth anniversary of the date of grant. This would ensure that the EMI options are exercisable on completion of its vesting schedule or when an exit has occurred.

2. Clauses 14 (Enterprise investment scheme: increase in amounts and asset requirements) and 15 (Venture capital trusts: rate of relief and amounts and asset requirements)

Outline of the measure

2.1. The Enterprise Investment Scheme (EIS) and Venture Capital Trust scheme (VCT), along with the Seed Enterprise Investment Scheme (SEIS), offer investors a range of tax incentives designed to help unquoted companies attract equity investment.

2.2. These clauses increase the annual and lifetime investment limits for the EIS and VCT in Great Britain and raise the gross assets thresholds for qualifying companies:

- The maximum amount raised annually through risk finance investments requirement for EIS is increased to £10 million, and to £20 million for knowledge-intensive companies (KICs)
- The maximum risk finance investments at the issue date and during period B requirements are increased to £24 million, and to £40 million for KICs
- The gross assets requirement is increased to £30 million immediately before the share issue and £35 million immediately after the share issue
- The maximum amount raised annually through risk finance investments requirement for VCT is increased to £10 million, and to £20 million for knowledge-intensive companies (KICs)
- The maximum risk finance investments when relevant holding is issued and during the 5-year post-investment period requirements are increased to £24 million, and to £40 million for KICs
- The gross assets requirement is increased to £30 million immediately before the share issue and £35 million immediately after the share issue

2.3. Clause 15 reduces the rate of income tax relief available for investments into VCTs from 30% to 20%.

2.4. The changes take effect for investments made on or after 6 April 2026.

Comments

2.5. We have no comments on this legislation beyond observing that these changes give with one hand and take with the other. There are significant increases in the limits for the sizes of companies that can offer EIS and VCT incentives, but the revenue cost of this is expected to be outweighed by the revenue gain from less generous relief for investment in a VCT, making these changes a net revenue raiser for the Exchequer.

3. Clause 16 (CSOP schemes and EMI: PISCES shares)

Outline of the measure

3.1. This clause will allow an employer to amend an existing Company Share Option Plan (CSOP) and Enterprise Management Incentives (EMI) option agreement, in order to include a Private Intermittent Securities and Capital Exchange System (PISCES) trading event as an exercisable event, without losing the tax advantages that the CSOP and EMI schemes offer.

3.2. The change will apply to CSOP and EMI share options granted before 6 April 2028.

3.3. The legislation will have retrospective effect on and after 15 May 2025.

Comments

3.4. We think that these changes are helpful and have no comments on the legislation.

4. Clauses 17 (Employee car and van ownership schemes) and 18 (Car or van made available on arm's length terms)

Outline of the measure

4.1. Clause 17 amends the rules for a vehicle to be classed as a taxable benefit-in-kind to include vehicles provided via Employee Car Ownership Schemes (ECOS).

4.2. The clause has effect from 6 April 2030.

4.3. Clause 18 introduces an exception to the rules for a vehicle to be classed as a taxable benefit-in-kind where the vehicle is sold or leased by an employer in the motor industry, to their employee, on arm's length terms.

4.4. The clause has effect from 6 April 2026.

Comments

4.5. We understand that the intention of clause 17 is to address ECOS arrangements that are perceived as distorting the line between ordinary commercial arrangements for acquiring a vehicle and the provision of a company car / van, with the result that vehicles provided

through these arrangements will be deemed taxable benefits-in-kind when previously they were not treated as such.

4.6. We also understand that many manufacturers were concerned about the impact to their business from this change, and that it could lead to a decrease in the sales of electric vehicles, and we therefore welcome the deferral of this measure until 2030.

4.7. We welcome the inclusion of transitional rules until 2032 for arrangements entered into before 6 April 2030.

4.8. We also welcome clause 18 which addresses some of the concerns we had with the draft legislation published last summer and, in particular, the drafting of new section 116A, which is widely drawn as regards to who it applies to – for example, the definition of 'member' extends very widely to include children, parents & even includes guests visiting the employee – and the type of arrangements caught. Clause 18 goes some way to address this by excluding arm's length transactions. Without clause 18 even a straightforward purchase of a vehicle from the employer at full market value could have been caught by new section 116A.

4.9. It would be helpful if draft guidance on new section 116A was published this year and consulted on. In particular, it would be helpful to clarify the meaning of the following terms:

4.10. "arrangements" is widely drawn to include any "understanding" whether or not legally binding. What does this mean in practice?

4.11. "arrangements cease to have effect" – arrangements can include a simple legally unenforceable understanding. How can you show when an understanding ceases to have effect?

4.12. Timing of "the arrangements" – do the arrangements have to be in place when the car is first made available or are arrangements that are put in place later caught too and, if so, when from (date vehicle made available or date arrangements put in place)?

4.13. "registered keeper" – one of the conditions is that the arrangements "provide for a person other than the employee or member to be the registered keeper of the car or van" but there also needs to be a "transfer of the property" to an employee (or family / household member). How would one ascertain whether there has been a transfer of property to the employee / member other than looking at who the registered keeper is?

5. Clause 19 (CO2 emissions figure for certain cars with an electric range figure)

Outline of the measure

5.1. This clause amends the CO2 emission figure to be used for certain vehicles registered under new emission standards. For cars made available for private use by an employer to an employee, the benefit-in-kind liability is based on the CO2 emissions of the vehicle. This clause deems the CO2 figure to be 1 g/km to act as a wholly relieving easement for Plug-in Hybrid Electric Vehicles (PHEVs) registered under new emissions standards.

5.2. The clause has effect from 1 January 2025 for tax years 2024-25 to 2027-28 inclusive with further transitional provisions from 2028-29 to 2030-2031 inclusive under certain circumstances.

Comments

5.3. This clause achieves its aims, and we have no comments on the legislation.

6. Clause 20 (Employment income: miscellaneous exemptions)

Outline of the measure

6.1. This clause introduces:

- a new exemption for the reimbursement of expenses incurred by an employee on behalf of the employer in respect of accommodation, supplies and services used in performing employment duties.
- an extension to the existing exemption for eye tests and special corrective appliances to cover reimbursements
- a new exemption for both the direct provision and reimbursement of influenza vaccinations.

6.2. The measure has effect for payments made on or after 6 April 2026.

Comments

6.3. We welcome this legislation, which will exempt a number of minor benefits-in-kind from income tax and National Insurance. The CIOT has previously recommended introducing these changes and we are pleased to see that the government is acting to remove from taxation low value benefits that are a common part of modern working life.

6.4. The extension of the exemption for eye tests and glasses corrects an anomaly in existing legislation that only allows an income tax exemption when an employer directly pays for these or provides a voucher. The existing situation is contrary to our understanding of the original policy intent, which was to also permit tax-exempt reimbursement by an employer of costs that an employee has directly incurred.

6.5. The tax exemption for home-working equipment will enable employers to reimburse employees for the full equipment costs they have directly incurred – with no tax charge – where that equipment is necessary for the employees to perform the duties of their employment.

6.6. The exemption for vaccination costs will make it easier for smaller businesses, which are less likely to be able to arrange for a nurse to visit the workplace or to obtain vouchers for immunisations, to cover the costs of flu jabs for their employees.

6.7. The clause achieves its aims, and we have no criticism of the legislation.

6.8. We would however recommend a review of other benefit-in-kind exemptions that distinguish between employer provision and employer reimbursement, and so far as is practical remove those distinctions. We believe that tax exemptions should apply equally to

employees' benefits where the cost is reimbursed by their employer as where their employer provides that benefit directly.

6.9. Under current rules, a range of benefits-in-kind (for example health screenings and medical check-ups) are exempt from income tax and National Insurance on the employee if they are paid for directly by employers, or via a voucher scheme arranged by the employer. However, if the same benefits are paid for by an employee and later reimbursed by their employer, the reimbursement is treated as part of the employee's taxable earnings and they find themselves facing an additional tax charge as a result. This distinction tends to affect smaller businesses that do not have the resources to make direct provision of, for example, health-related screenings.

6.10. We suggest removing this anomaly so that employer reimbursements are treated in the same way as directly provided employer benefits and are eligible for the same exemptions. This would simplify life for smaller businesses, employees and HMRC. We also suggest reviewing the requirement to return employer-provided equipment to employers when the employee leaves or when it is replaced. At present if the equipment is not returned, potentially a taxable benefit-in-kind arises on its market value, but for many employers it can be an administrative pain getting unneeded equipment back and then disposed of.

7. Clause 21 (Disallowing deduction from earnings for additional household expenses)

Outline of the measure

7.1. This clause removes the ability of employees to claim income tax relief from HMRC if they have incurred additional household costs when being required to work from home and have not been reimbursed by their employer. (Payments by employers to employees to reimburse the same expenses continue to be free of tax and NICs.)

7.2. The clause will have effect from after 6 April 2026.

Comments

7.3. We are of the view that the relief should be retained and changes made to ensure it is easier for employees to understand when they can claim the relief and for HMRC to administer claims.

7.4. While the change simplifies administration from HMRC's perspective, it is likely to disadvantage low-income workers and employees of smaller businesses, as the clause will deny employees that are not reimbursed by their employer income tax relief on their homeworking expenses.

7.5. While we understand that HMRC receives a large number of incorrect claims, we do not think the answer is to stop genuine claimants from claiming tax relief. The number of incorrect claims illustrates how complex the tax rules are where employees work from home either full or part-time. A better approach would be to undertake a comprehensive review of the homeworking, and travel and subsistence, rules so that they better reflect today's working environment.

7.6. Under current rules, to claim tax relief, you must be required to work from home, which is a stricter test than simply choosing to work from home. For example, it applies where a contract specifies home as the workplace or where an employer lacks available office space, but not where an employer merely gives employees the option to work from home part of the time. This is different from the rules under section 316A of ITEPA 2003 (Homeworker's additional household expenses) which allow employers to reimburse employees for additional homeworking expenses if an employee regularly performs some or all of their duties of the employment at home by arrangement with the employer regardless of whether or not this is a requirement of the job.

7.7. The measure will increase unfairness. Currently those who are required to work from home are divided into two groups – those who receive reimbursement of the additional costs without incurring income tax or NIC and those who are not reimbursed, but who are able to claim tax relief on their unreimbursed costs. This measure exacerbates that split. It will create an even greater divide between those two groups, as those who do not receive reimbursement will not even be able to claim tax relief. As a result the tax burden will be increased on around 300,000, typically lower-paid, employees.

7.8. We would like to see much more alignment between the tax treatment of reimbursed and unreimbursed expenses to improve fairness and cohesion in the system. We would welcome HMRC/HMT launching a full consultation on the entire employee expenses framework to gather broad input from experts, businesses and the public before any further decisions are made in this area.

8. Clauses 22 (Payment for cancelled shifts etc.) and 23 (Location of duties of employment where duties not performed)

Outline of the measure

8.1. Clause 22 introduces new provisions to put beyond doubt that payments for cancelled, moved or curtailed shifts are earnings for income tax purposes.

8.2. This measure will come into force from the first day the duty to make payments for cancelled, moved or curtailed shifts under the Department for Business and Trade's legislation has effect.

8.3. Clause 23 includes provisions to put beyond doubt whether earnings for duties not performed should be treated as UK earnings or overseas earnings for non-UK residents.

8.4. It also makes consequential amendments for Foreign Employment Relief (commonly known as Overseas Workday Relief) and clarifies how Post-Employment Notice Pay (PENP) is charged to tax for non-UK resident employees.

Comments

8.5. We would expect such payments to be taxed as employment income under existing legislation and are surprised that this needs legislating for. Clause 22 puts that treatment beyond doubt and we have no comments on the legislation.

8.6. Clause 23 clarifies when payments for duties not performed made to non UK residents should be treated as relating to UK duties or overseas duties. We again have no comments on the legislation, which appears to meet its objective.

9. Clause 24 (Umbrella companies)

Outline of the measure

9.1. This clause introduces a new Chapter 11 into Part 2 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003) to make recruitment agencies jointly and severally liable to pay any amount payable under PAYE when they supply workers via umbrella companies.

9.2. Where there is no agency involved in the supply of the worker, the joint and several liability will apply to the end client.

9.3. This clause will have effect in relation to payments made on or after 6 April 2026.

9.4. Information about umbrella companies and how they work can be found on the website of CIOT's Low Incomes Tax Reform Group: Umbrella company workers | Low Incomes Tax Reform Group

Comments

9.5. Action to tackle non-compliance in the umbrella company market is welcome and overdue. While there are many good umbrella companies that correctly account for tax and NIC on payments to workers there are also a small number of 'bad actors' in the sector that use disguised remuneration schemes to avoid paying the correct amount of tax and NIC due, despite those avoidance arrangements having no reasonable basis of succeeding. It is therefore right that there should be greater focus on the labour supply chain, and that agencies and end clients should bear greater responsibility in ensuring that the umbrella companies they engage with, either directly or indirectly, are applying tax and NICs fully to the payments they make to workers.

9.6. This legislation reflects concerns raised by CIOT's Low Incomes Tax Reform Group (LITRG) in a 150 page research report on labour market intermediaries (with a strong focus on umbrella companies) published in March 2021. LITRG's report was followed by a cross-departmental call for evidence on umbrella companies later in 2021 and a further government consultation in 2023.

9.7. While broadly supportive of this action we have two major concerns with the legislation:

9.8. Firstly, there are no safeguards; HMRC can simply transfer liability to the agency regardless of the circumstances. When an agency has done all it can to ensure the integrity of a supply chain but, for example, has been the victim of fraud by the umbrella company, we think there should be safeguards in place to prevent the transfer of debt for events that are completely outside the agency's control.

9.9. Secondly, the concept of a "purported umbrella company" is broadly defined to include any entity supplying an individual's services where that individual has a material interest in the entity. The legislation addresses an emerging risk around Elective Deductions Model (EDM)

arrangements[1] being used to circumvent the joint and several liability being introduced for umbrella companies. The reasoning behind this is that the joint and several liability obligation arises if there is 'employment' of a worker through the umbrella company, and EDM contracts tend to try to be 'contracts for services' (i.e. self-employment rather than employment). While an EDM arrangement would still fall within Chapter 7 of ITEPA 2003 (agency workers) rather than the new Chapter 11 (umbrella companies) and tax and NIC under PAYE would have to be deducted, there is no joint and several liability to Chapter 7, so there appears to be less concern with Chapter 7 than Chapter 11 and the EDM arrangement is being seen as a workaround for agencies and end clients to the joint and several liability being imposed by Chapter 11. As a result the concept of 'purported umbrella company' has been widened to include EDM arrangements.

9.10. Unfortunately, in our view, this broadening of the definition of purported umbrella companies would appear to mean that personal service company arrangements (i.e. those arrangements to which the IR35 and Off-Payroll Working legislation apply) could be deemed to be purported umbrella companies. We assume this was not the intention and it would be helpful to put this beyond doubt.

9.11. If personal service companies are now included in Chapter 11 because of the drafting of the definition of 'purported umbrella companies' then, since the new Chapter 11 rules take precedence over the Chapter 8 (IR35) and Chapter 10 (off-payroll working) rules in ITEPA 2003, it appears that the individual worker's employment status (that is, whether they are deemed employed or self-employed for IR35 and off-payroll working purposes) will become irrelevant. This would mean that, for example, small businesses (that are outside the scope of the off-payroll working rules) will now have to confirm that a worker is either genuinely self-employed (currently the responsibility of the worker and their personal service company) or that the majority of payments are being taxed as earnings, otherwise they risk liability for PAYE tax being transferred to them under Chapter 11. Again, we assume this was not the intention.

9.12. Lastly, we request clarity as regards the priority of application of the various Chapters within Part 2 of ITEPA 2003. For example, does Chapter 7 (agency workers) take precedence over new Chapter 11? (The rules for determining whether a worker is subject to PAYE deductions differ across Chapters 7 to 11. Understanding which Chapter(s) take precedence and which rules to apply is important if businesses are to be able to understand their obligations.)

10. Clauses 25-27: Loan charge settlement scheme

Outline of the measures

10.1. Clause 25 allows HM Treasury to lay regulations establishing a new settlement scheme for people liable to the loan charge who are yet to pay their liability and for HMRC to administer that scheme.

10.2. Clause 26 confirms that the loan charge settlement scheme may provide that where a person enters into a settlement agreement under the scheme certain amounts of

[1] https://www.litrg.org.uk/blog-post/elective-deductions-model-edm-explainer-advisers.

inheritance tax cease to be payable by that person and adjustments can be made to the amounts of inheritance tax payable by others.

10.3. Clause 27 makes supplementary provision for the scheme.

Comments

10.4. We welcome the adoption of the recommendations from the McCann review into the loan charge. This includes welcoming the new settlement scheme, which will remove some of the barriers preventing taxpayers from resolving their loan charge liabilities.

10.5. We do however have two major concerns with the new settlement terms.

10.6. Firstly, those that have already settled are excluded from benefitting from the new settlement terms. These new terms are better than previously offered. This sets an unfortunate precedent that if you hold out and don't pay the tax HMRC is demanding you may end up better off than if you had paid on time. If the more generous terms are not extended to people who have already settled/fully paid or who are outside the technical loan charge years, it risks undermining perceptions of fairness, harming future tax compliance and damaging trust in the tax system.

10.7. Secondly, the settlement terms exclude disguised remuneration income from years outside the 2010/11–2018/19 tax years. This is because the review's scope was restricted by its terms of reference to those impacted by the loan charge legislation, covering the period 9 December 2010 to 5 April 2019. However, many of the affected taxpayers have disguised remuneration loans from these periods. Additionally, there are taxpayers with disguised remuneration loan schemes from the 2010/11 to 2018/19 period which HMRC's considers to be outside the loan charge but within the disguised remuneration rules, and which HMRC are pursuing settlements on separately from any arrangements considered to be within the terms of the loan charge. In our opinion, if taxpayers are to be able to reach a resolution with HMRC, any arrangements that are factually linked to the loan charge period, whether from before, during or after that period, ought to be included in the new settlement terms.

10.8. The independent review conducted by Ray McCann stated that it will be for HMRC to decide on how the above cases should be concluded. We would encourage HMRC and government to extend the new loan charge settlement opportunity to cover all loan charge-related cases, including those who have already settled/fully paid and those who are outside of the technical loan charge years as set out above.

10.9. Additionally, we endorse the comments in the separate submission made to the public bill committee by the CIOT's Low Incomes Tax Reform Group (LITRG).

10.10. It is important to acknowledge that some will consider that offering any kind of favourable terms to those caught by the loan charge is unfair, on the grounds that the compliant majority who did not participate in these schemes have had to pay the full amount of tax due without any discount. Others will consider that the loan charge should not be applied at all, on the grounds that many of those caught up in it were victims of mis-selling by promoters and others who pocketed many of their supposed tax savings, and that HMRC were slow to act. There are merits in both arguments. There is no perfect solution here but we believe that, in response to the extraordinary piece of government policy that is the loan charge, the settlement scheme being offered, amended in the way we suggest,

represents a pragmatic way forward and provides an opportunity to bring this sorry episode to a conclusion.

11. Clause 57 (Collective money purchase schemes and Master Trust schemes)

Outline of the measure

11.1. A Collective Money Purchase (CMP) scheme is a type of UK occupational pension scheme where members' retirement incomes are paid from a single collective fund, rather than from individual pension pots.

11.2. This clause sets out when HMRC is able to refuse to register, or to remove registration from, a CMP scheme, and gives HMRC the power to make regulations to amend or modify Part 4 of Finance Act 2004 in relation to CMP schemes.

11.3. It also makes consequential changes to the definition of a Master Trust scheme.

11.4. These provisions have effect on and after the date of Royal Assent.

Comments

11.5. HMRC will need the power to amend existing legislation so that pension tax rules operate correctly for CMP arrangements – more commonly referred to as Collective Defined Contribution (CDC) schemes. A whole of life CDC scheme (the Royal Mail Collective Pension Plan) is already in place, and multi-employer CDC schemes are expected from summer 2026. In parallel, the government is consulting on a new "Retirement CDC" model, under which individual defined contribution savers could purchase a CDC scheme pension at retirement. Retirement CDC may also become a tool that trustees use to meet the forthcoming guided retirement duties expected from 2027.

11.6. Current HMRC rules do not normally allow scheme pensions to be reduced in payment, though there are exceptions. A current exemption allows CDC and other scheme pensions to be reduced in payment providing all scheme pensions in the scheme are reduced by the same rate. However, the new types of CDC scheme may mean that a reduction would apply to only some pensions, or to a different extent in some than others. For example, members who joined in a particular year might have their scheme pension benefits reduced by 1% whereas members who joined later might have theirs reduced by 2% or not at all. Since these are not the same reduction for all scheme pensions in the CDC scheme the legislation will need updating to accommodate this.

11.7. We suggest that the tax treatment of purchasing a Retirement CDC pension should be broadly aligned with the rules for buying a lifetime annuity. In particular, the rules should allow:

- the same minimum pension age for accessing benefits;
- a pension commencement lump sum on the same basis as for annuities; and
- equivalent treatment of death benefit guarantees.

11.8. Furthermore, under a guided retirement model, trustees may be required to make default choices on behalf of members. They are unlikely to do so confidently if the purchase

of a Retirement CDC pension is fully irrevocable from the outset. To support the intended policy aims and enable practical trustee decision making, we think HMRC should make provision for limited opt-out periods and conversion options.

11.9. The power included in the Bill to make provision about CMP schemes (new section 274ZZC) is therefore important: once the government finalises its policy on Retirement CDC, HMRC will need flexibility to adjust the pension tax rules to support its operation.

The Chartered Institute of Taxation

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The Chartered Institute of Taxation
21 January 2026