

DEFENCE

Service Pensions Taxation Error

The Parliamentary Under-Secretary of State for Defence (Mr. Ivor Caplin):

15 Dec 2003 : Column 128WS

The report of the internal inquiry into the incorrect deduction of tax from Service attributable pensions recommended that, in addition to the Inland Revenue refund and repayment supplement, consideration should be given to further compensation for those affected by the error. The Inland Revenue allowed a significant concession in waiving the time limits that normally apply in refunds of tax. However, representations have been made that the Ministry of Defence should pay further compensation to those pensioners for whom the effect of the error persisted over a considerable number of years. The Government accept that, where individuals suffer a financial loss as a result of its administrative errors, then the onus is on that Department to restore those individuals to the position they would have enjoyed had the errors not occurred. The Ministry of Defence has already accepted responsibility for the errors which led to tax being wrongly deducted and has apologised unreservedly. We further accept that, in certain cases, payments made so far have not provided full compensation for the cost of the errors to individuals.

I have therefore decided that further ex-gratia compensation will be paid to those who were in receipt of pensions outside the normal six-year Inland Revenue repayment period. Compensation will be calculated by applying compound interest, using the Retail Prices Index plus 2 per cent. to the tax wrongly deducted, net of the estimated repayment by the Inland Revenue. We will also pay ex-gratia compensation, calculated in the same way, to those who suffered from the related error of delays in payment of benefits under the Armed Forces Pension Scheme, including using the Inland Revenue Repayment formula for compensation for errors within the normal six-year period. Payment will be made as quickly as possible.

It will, however, take some months to complete all payments because the necessary data on each individual are held mainly on manual records. We deeply regret the errors made but I hope that this offer of compensation will draw matters to a satisfactory conclusion.

Finally, I would like to express my considerable gratitude to those pensioners, in particular Major John Perry and Captain John Lewis, who have worked tirelessly to bring this matter to our attention and to help with its resolution.
