# Pensions and retirement planning

## R04 August 2015 edition

### Web update 4: 16 October 2015

Please note the following updates to your copy of the August 2015 edition of the **R04** study text:

### Chapter 2.1, section B6, pages 2/35–2/36

Please amend example 2.32 as shown below in bold.

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**Example 2.32**

Jeanne, who is 46, has relevant UK earnings of **£90,000** for 2015/16. **She is a member of her company's occupational money purchase scheme, which awards tax relief via the net pay method**. In August 2015 she makes a **gross** contribution of £30,000 and her employer makes a contribution of £40,000. No other pension contributions were made in respect of 2015/16.

Jeanne's taxable income (or reduced net income) for the purposes of the annual allowance is £49,400 (i.e. **£90,000 – £30,000 – £10,600**). This is in excess of the higher rate income tax threshold of £31,785 and therefore Jeanne is a higher rate taxpayer.

She has fully utilised her annual allowance in respect of each of the three previous tax years.

The consequences of these contributions are:

Jeanne's personal contribution of £30,000 is less than her relevant UK earnings, so she will receive tax relief on the entire contribution.

The employer's contribution should be eligible for tax relief in full.

The total gross contributions made exceed Jeanne's annual allowance of £40,000, so Jeanne will be subject to an annual allowance tax charge as follows:

- the total gross contribution is: £30,000 + £40,000 = £70,000;
- this exceeds the annual allowance by: £70,000 – £40,000 = £30,000;
- Jeanne's reduced net income is £49,400 and the excess over the annual allowance is added to this figure giving a total of £79,400.
- The excess of £30,000 all falls into the higher rate tax band and will therefore be subject to a tax charge of: £30,000 × 40% = £12,000.

Please amend example 2.33 as shown below in bold.

### Example 2.33

Edward, who is 37, has taxable earnings (or reduced net income) of £30,000 per annum for 2015/16.

The basic rate income tax band is £31,785 for 2015/16 and therefore Edward has £1,785 of his basic rate income tax band remaining.

**Edward's employer contributes to his group personal pension plan and Edward does not make any personal contributions. The employer's contributions** have exceeded his annual allowance by £6,000 in 2015/16. The excess of £6,000 is added to Edward's reduced net income of £30,000, giving a total of £36,000, which pushes Edward into the higher rate income tax band. This means that part of the excess (up to £31,785) will be subject to income tax at 20%, with the balance subject to income tax at 40%.

In terms of his annual allowance charge this means that:

- the first £1,785 of the excess over the annual allowance will be subject to an annual allowance charge of 20%:
  £1,785 × 20% = £357.
- The balance of £4,215 (£6,000 – £1,785) will be subject to an annual allowance charge of 40%:
  £4,215 × 40% = £1,686.
- Edward's total annual allowance charge is therefore £357 + £1,686 = £2,043.

## Chapter 2.1, case study answers, page 2/49

Please amend the answer to case study 2.2 as shown below in bold.

2.2 If Jeanne contributes £70,000 (gross) and her employer does not contribute:

- Jeanne's contribution of £70,000 **is still within her** relevant UK earnings of **£90,000**, so she will receive tax relief on **the entire** contribution;
- Her total gross contribution of £70,000 will be treated as a relievable pension contribution for the purposes of testing against the annual allowance
- This still exceeds Jeanne's annual allowance by £70,000 – £40,000 = £30,000
- Jeanne is a higher rate taxpayer and therefore will still be subject to a tax charge of £30,000 × 40% = £12,000.

## Chapter 2.2, section D2C, page 2/57

Please amend the first bullet point of the first bullet list in this section to read as follows:

- Small pots payments are not tested against the member's lifetime allowance (i.e. they are not benefit crystallisation events)**, and it is not necessary for the member to have any** lifetime allowance remaining to take a small pots commutation; and

## Chapter 6.1, section B1, page 6/6

Please amend the penultimate bullet point in the bullet list in this section to read as follows:

- Small pots payments are not tested against the member's lifetime allowance as they are not treated as benefit crystallisation events **and it is not necessary for the member to have any** lifetime allowance remaining to be able to take a small pots payment.

## Chapter 6.1, section B1, example 6.1, page 6/6

Delete the third paragraph of example 6.1 about Ursula and replace it with the following:

As the EPP is not valued in excess of £10,000 and as Ursula has reached age 55, she can commute this pension plan for a lump sum under the small pots rules.