Pensions and retirement planning

R04 December 2015 edition

Web update 02: 24 February 2016

Please note the following update to your copy of the December 2015 edition of the **R04: Pensions and retirement planning** study text:

Chapter 2.1, case study answers, page 2/50

Please amend the answer to case study 2.2 to read (new text 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 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
- **As a result of the higher pension contribution Jeanne's reduced net income is now £90,000 – £70,000 – £10,600 = £9,400.**
- **The excess over the annual allowance is added to this figure, giving a total of £39,400.**
- **The basic rate tax band is £31,785, which means that part of Jeanne's excess will be subject to an annual allowance tax charge at 20% and the balance will be subject to an annual allowance tax charge at 40%.**
- **The part that falls into the higher rate tax band will be £39,400 – £31,785 = £7,615, giving an annual allowance tax charge of £7,615 × 40% = £3,046.**
- **The balance of the excess is £30,000 – £7,615 = £22,385 and this will be subject to an annual allowance tax charge of 20%; i.e. £22,385 × 20% = £4,477.**
- **Hence Jeanne's total annual allowance tax charge will be £3,046 + £4,477 = £7,523.**