Pension savings tax charges - guidance for members of overseas pension schemes that are not UK registered pension schemes

Contacts
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This helpsheet is about the pension savings tax charges on:
- benefits in excess of the Lifetime Allowance
- pension savings in excess of the Annual Allowance
- pension savings in excess of the Special Annual Allowance
- unauthorised payments
- short service refunds of contributions
- lump sum death benefit payments
- refunds of contributions, and
- trivial commutation and winding-up lump sums.

You may be liable to such a charge if you are a member of an overseas pension scheme that is not registered in the UK in which you have 'UK tax-relieved funds' or 'UK transferred funds'.

UK tax-relieved funds are funds in an overseas pension scheme made up of:
- contributions made by you, or on your behalf, on or after 6 April 2006 that were relieved or exempted from UK tax
- employer contributions made on or after 6 April 2006 in respect of retirement and death benefits if you were exempted from UK Income Tax on those contributions, and
- the notional fund attributable to the expense incurred on or after 6 April 2006 by your employer for your retirement and death benefits if you were exempted from UK Income Tax on that expense.

UK transferred funds are funds in an overseas pension scheme that were transferred directly or indirectly to that scheme on or after 6 April 2006 from a UK registered pension scheme, or from UK tax-relieved funds or UK transferred funds in another overseas pension scheme.

Boxes 5 to 7 *Lifetime Allowance excess tax charge*

Ignore boxes 5 to 7 if your funds in an overseas pension scheme derive solely from UK transferred funds.

If you have UK tax-relieved funds in an overseas pension scheme you may be liable to a Lifetime Allowance excess tax charge unless in 2010–11
- no benefits from an overseas pension scheme have come into payment, and
- no rights have been transferred from an overseas pension scheme to a qualifying recognised overseas pension scheme.

Even if scheme benefits have come into payment or rights have been transferred to a qualifying recognised overseas pension scheme in 2010–11, you can ignore boxes 5 to 7 if:
- the aggregate value of any benefits that came into payment in 2006–07, 2007–08, 2008–09, 2009–10 and in 2010–11, plus the aggregate of any amounts transferred to such a scheme in 2006–07, 2007–08, 2008–09, 2009–10 and in 2010–11, does not exceed £1.5m, and

• you have no rights in any UK registered pension scheme.

You can find guidance on how to value benefits in the *Registered Pension Schemes Manual*, from page RPSM11104000 at **www.hmrc.gov.uk** (As a guide, a pension of £75,000 a year would normally have a value of no more than £1,500,000.) You can find out what a qualifying recognised overseas pension scheme is on page RPSM14101050 of that manual.

Your Available Lifetime Allowance is how much is left after the value of any benefits that came into payment in 2006–07, 2007–08, 2008–09, 2009–10 and 2010–11, plus any amounts transferred to a qualifying recognised overseas pension scheme in those years, are deducted from the Lifetime Allowance. You can find information about the Lifetime Allowance in the *Registered Pension Schemes Manual*, from page RPSM11100000.

You can find more information which will help you to decide if you are liable to a Lifetime Allowance excess tax charge in the *Registered Pension Schemes Manual*, from page RPSM13102510.

Pension savings tax charges and taxable lump sums from overseas pension schemes

Box 5 *Value of pension benefits in excess of your Available Lifetime Allowance, taken by you as a lump sum*

If in 2010–11:

• benefits deemed to have come from UK tax-relieved funds exceed your Available Lifetime Allowance, and
• those benefits were taken as a lump sum

enter in box 5 the total excess amount of the lump sum or sums.

If you have a mixture of UK tax-relieved funds and other funds in an overseas pension scheme, payments from it are deemed to come first from the UK tax-relieved funds until they are reduced to nil. Payments can only give rise to any of these charges if they are deemed to have come from the UK tax-relieved funds. You can find more information about this at RPSM13102540.

The amount of your UK tax-relieved funds in an overseas pension scheme is the aggregate of your pension input amounts in it for each tax year from 2006–07. The way in which your annual pension input amount is calculated is explained in the note for box 8 on page 3, and the sections which follow it.

Do not include in box 5 tax-free lump sums paid with a pension which are payable within your Lifetime Allowance. Include lump sums paid for serious ill-health, but only enter amounts which exceed the Lifetime Allowance or lump sums expressly paid for being over the Lifetime Allowance and any amount deemed to have crystallised from UK tax relieved funds in 2010–11 in excess of your Available Lifetime Allowance, following the submission of an APSS 254. You can find information about deemed crystallisations at RPSM13102570.

Convert benefits to sterling using the 'spot rate' at the date of payment. You can find spot rates on the Bank of England's website or you may be able to obtain them from your bank.

Box 6 *Value of pension benefits in excess of your Available Lifetime Allowance, not taken as a lump sum*

Enter in box 6 the total of:

• the benefits deemed to have come from UK tax-relieved funds in 2010–11, or any part of those benefits, in excess of your Available Lifetime

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Allowance that were not paid to you as a lump sum, and
- any amount transferred to a qualifying recognised overseas pension scheme deemed to have come from UK tax-relieved funds in 2010–11, or any part of that amount, in excess of your Available Lifetime Allowance.

Convert benefits and transferred amounts to sterling using the spot rate at the date of payment or transfer.

Box 7 ***Lifetime Allowance tax paid by your pension scheme***

Ignore box 7 as it only applies to members of UK registered pension schemes. The manager of an overseas pension scheme will not pay tax to us.

Box 8 ***Amount saved towards your pension, in the period covered by this tax return, in excess of the Annual Allowance***

Ignore box 8 if:
- your funds in an overseas pension scheme derive solely from UK transferred funds, or
- you are the personal representative of a scheme member who died during 2010–11 and you are filling in this form on that person's behalf for the period up to the date of death.

If you have UK tax-relieved funds in an overseas pension scheme you may be liable to an Annual Allowance excess tax charge.

Even if you have UK tax-relieved funds you can ignore box 8 if in 2010–11:
- your savings in overseas pension schemes have not increased by more than £255,000, and
- you have no rights in any UK registered pension scheme.

You are liable to a tax charge of 40% if the overall amount of the increase in your pension savings (your 'pension input amount') in overseas pension schemes in the 2010–11 tax year (the 'pension input period') was more than your Annual Allowance. The charge applies to the excess amount. The Annual Allowance for 2010–11 is £255,000.

If you have more than one arrangement in a scheme your pension input amount in the scheme is the total of the pension input amounts in each of those arrangements. The way in which your pension input amount in an arrangement is calculated will depend on the nature of that arrangement. You can ignore the increase in your savings in a particular pension arrangement in a scheme if you took all your benefits in 2010–11 for that arrangement.

The pension input amount varies depending on the type of arrangement. The following paragraphs explain how to calculate your pension input amount in:
- a money purchase arrangement (one in which benefits are provided from a pension pot derived from contributions made by your employer and perhaps also by you)
- a defined benefits arrangement (typically one in which the level of benefits is calculated by reference to your earnings and length of employment)
- a cash balance arrangement (one where there is a promised pot but without specifying the form of benefit), and
- a hybrid arrangement (one where your eventual pension might come from more than one of the above types of arrangement, but you will ultimately only receive benefits from one of the types).

Money purchase arrangement

If you have a money purchase arrangement your pension input amount in it is arrived at by adding together:

- the UK tax-relieved contributions you paid to it in 2010–11, and
- the fraction below of the total amount of contributions paid to it by your employer in 2010–11.

The fraction you have to apply is TE/EI. EI is the total amount of your employment income from any employment with an employer that made contributions to the arrangement in 2010–11. TE is so much of EI as is UK taxable earnings.

Defined benefits arrangement

If you have a defined benefits arrangement your pension input amount in it is the capital value of the increase of your rights in 2010–11. That is calculated in two stages. You can ignore any rights in an overseas pension scheme of which you were a deferred member for the whole of 2010–11.

First stage

Work out the increase in your pension rights under the arrangement in the 2010–11 tax year and convert it to a capital value. You can do this by taking the figure for the annual amount of promised pension at the start of that year away from the corresponding figure at the end of that year, and by multiplying the resulting amount by 10. Do not take into account:

- any pension increase or reduction due to a transfer into or out of the arrangement
- any pension increase or reduction due to a pension sharing order, or
- any reduction in your promised pension at the end of the year due to your having taken some (but not all) of the benefits for that arrangement.

(For example, where you have a promised annual pension of £75,000 at the start of the year and a promised annual pension of £100,500 at the end of the year the increase in 2010–11 under the arrangement is £25,500. That has a capital value of £255,000, and uses up the whole of your Annual Allowance for 2010–11.)

Then, add to that figure any increase over the 2010–11 tax year in your rights to a separate lump sum in the arrangement, being a lump sum not paid for by giving up some of your pension rights. If your lump sum is not separate, do not add anything to the calculation of your pension rights above.

Second stage

The pension input amount is the greater of:

- the total amount of UK tax-relieved contributions paid by you or on your behalf (but not by an employer) to the arrangement in 2010–11, and
- the fraction below of the amount arrived at in the first stage.

The fraction you have to apply is TE/EI. EI is the total amount of your employment income from any employment with an employer that is sponsoring the scheme in 2010–11. TE is so much of EI as is UK taxable earnings.

Cash balance arrangement

If you have a cash balance arrangement your pension input amount is also calculated in two stages.

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First stage

Work out any increase in 2010–11 in the promised amount that will be available for the provision of benefits. The value of the promised amount at the start of 2010–11 should be increased by 5% or, if greater, by the percentage increase in the Retail Prices Index for the country in which the scheme is established during that tax year. Do not take into account:
- any pension increase or reduction due to a transfer into or out of the arrangement
- any pension increase or reduction due to a pension sharing order, or
- any reduction in your promised amount at the end of the year due to your having taken some (but not all) of the benefits for that arrangement.

Second stage

The pension input amount is the greater of:
- the total amount of UK tax-relieved contributions paid by you or on your behalf (but not by an employer) to the arrangement in 2010–11, and
- the fraction below of the amount arrived at in the first stage.

The fraction you have to apply is TE/EI. EI is the total amount of your employment income from any employment with an employer that is sponsoring the scheme in 2010–11. TE is so much of EI as is UK taxable earnings.

Hybrid arrangement

Use the relevant method set out above to calculate the amount for each of the different types of arrangement that applies to you. Your pension input amount in the hybrid arrangement is the greater, or greatest, of those amounts.

For more details about the Annual Allowance excess tax charge, please see the *Registered Pension Schemes Manual*, from page RPSM13102310.

Box 8 *Amount saved towards your pension, in the period covered by this tax return, in excess of the Annual Allowance*

If your total pension input amount in overseas pension schemes in 2010–11 exceeds the Annual Allowance of £255,000, enter the excess amount in box 8. You can convert the pension input amount to sterling by using the spot rate for 5 April 2011.

Boxes 9 and 10 *Amount saved towards your pension in excess of the Special Annual Allowance*

Ignore boxes 9 and 10 if your funds in an overseas pension scheme derive solely from UK transferred funds.

If you have UK tax-relieved funds in an overseas pension scheme you may be liable to a Special Annual Allowance charge.

Even if you have UK tax-relieved funds you can ignore boxes 9 and 10 if in 2010–11:
- you have relevant income of less than £130,000, or
- you do not have any non-protected increases to your savings in overseas pension schemes, or
- your savings in overseas pension schemes increase by less than your Special Annual Allowance, and
- you have no rights in any UK registered pension scheme.

If you have relevant income of £130,000 or more for 2010–11, the Special Annual Allowance applies to you.

It applies from 22 April 2009 if you had relevant income of £150,000 or more for 2009–10. In practice this means your total income was £150,000 or more for any of 2007–08, 2008–09 or 2009–10.

If you did not have relevant income of £150,000 or more for 2009–10, the Special Annual Allowance applies to you from 9 December 2009.

The Special Annual Allowance test is only for non-protected increases to your pension savings which occurred in 2010–11, represented by non-protected increases in pension rights (for defined benefits arrangements and cash balance arrangements) or non-protected amounts of contributions paid (for money purchase arrangements).

The Special Annual Allowance excess tax charge applies if the amount of the increase in your non-protected pension savings in overseas pension schemes (and in any UK registered pension scheme) that occurred in 2010–11 was more than your Special Annual Allowance. The amount of your Special Annual Allowance in 2010–11 depends on your circumstances.

If the total of your non-protected pension savings for 2010–11 exceeds your Special Annual Allowance, the Special Annual Allowance excess tax charge applies in respect of the part of those savings that is over your allowance. For example, if the total amount of your non-protected pension savings is £30,000 and your Special Annual Allowance is £20,000, the Special Annual Allowance excess tax charge applies in respect of £10,000.

But if you are liable to an Annual Allowance excess tax charge because the increase in your pension savings exceeds the Annual Allowance (you will have entered an amount in box 8) you will also not be liable to a Special Annual Allowance excess tax charge on that excess amount. The Annual Allowance is £255,000 in 2010–11.

If you have an excess amount of non-protected pension savings for 2010–11 you may be liable to a tax charge of 20% or 30% on that amount or you may be liable at 20% on part of it and at 30% on the balance. You may need to put that amount in box 9 only or in box 10 only or you may need to put some of the excess amount in box 9 and the balance in box 10. This will depend on your circumstances.

Do not put anything in box 9 or box 10 if nothing is left after you deducted the amount that you have entered in box 8 from your excess amount of non-protected pension savings.

The amount left of your excess amount of non-protected pension savings after you deducted the amount you have entered in box 8 or all of your excess amount of non-protected pension savings for 2010–11, if you have not entered anything in box 8, is your excess amount.

Only your excess amount is shown in box 9 and/or box 10.

To determine what part of your excess amount goes into box 9 or box 10 take the following steps:

Step 1

Establish your total income for 2010–11 that is chargeable to Income Tax. This is all of your income less the amount of relief and allowances that you are able to deduct from it for 2010–11.

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Your income would include:

- earnings from employment and earnings from self-employment/partnerships
- most pension income
- interest on most savings
- income from shares
- rental income
- income from a trust.

The relief and allowances that may have been deducted might include:

- trading and property losses
- shares, securities, land gifted to charity
- retirement annuity premiums (box 2 on page TR 4)
- tax-free Personal Allowance, if you are entitled to any
- Blind Person's Allowance.

Step 2

Add your excess amount to your total income. This is your 'total amount'.

Step 3

Put nothing in box 9 or box 10 if your total amount does not exceed £37,400. If your total amount exceeds £37,400, go to Step 4.

Step 4

If your total amount exceeds £37,400, separate your total amount back into your total income and excess amount. If your total income does not exceed £37,400 go to Step 9. If your total income exceeds £37,400 go to Step 5.

Step 5

If your total amount exceeds £37,400 but it does not exceed £150,000, put your excess amount in box 9 (do not put your total amount in box 9) and do not put anything in box 10. If your total amount exceeds £150,000, go to step 6.

Step 6

If your total amount exceeds £150,000 separate your total amount back into your total income and excess amount. Go to Step 7.

Step 7

If your total income exceeds £150,000, put your excess amount into box 10 (do not put your total amount in box 10) and do not put anything in box 9. If your total income does not exceed £150,000 when you separate your total amount back into your total income and excess amount, go to step 8.

Step 8

Put into box 9 the part of your excess amount that represents the difference between your total income and £150,000 and put the balance of your excess amount in box 10. For example, if your total income is £145,000 and your excess amount is £15,000, put £5,000 into box 9 and £10,000 into box 10.

Step 9

If your total income is less than £37,400, reduce your excess amount to the amount that represents the difference between your total amount and £37,400 (for example, if your total income is £25,000 and your total amount is £45,000, reduce your excess amount to £7,600). Then complete Steps 5 to 8 above as appropriate but on the basis that your total income is £37,400.

Steps 1 to 9 above are based on the basic rate tax being charged on the first £37,400, higher rate on £37,401 to £150,000 and additional rate on amounts over £150,000. But £37,400 and £150,000 can be increased by any personal pension payments (box 1 on page TR 4) and grossed up Gift Aid (box 5 on page TR 4) x 100/80.

You can convert the excess amount to sterling by using the spot rate for 5 April 2011.

The increases in your pension saving for 2010–11 are arrived at differently depending on the type of pension arrangements you have. There is an explanation of the four different types of arrangement in the box 8 guidance on page 3.

How do I calculate my relevant income and find out if the Special Annual Allowance excess tax charge applies to me for 2010–11?

To find out your relevant income for 2010–11 you will need to do the following calculation.

Step 1

Take your total income that is chargeable to Income Tax for 2010–11 before any deduction for your Personal Allowance. This includes:
- earnings from employment and earnings from self-employment/partnerships
- most pension income
- interest on most savings
- income from shares
- rental income
- income from a trust.

Step 2

Add to your total income figure under Step 1 the amount of pension contributions you made in 2010–11 that were deducted from your pay before tax.

Step 3

Deduct the amount of relief that you received in 2010–11 in respect of, mainly, trading and property losses. This includes:
- trade loss relief against general income
- carry-forward trade loss relief
- terminal trade loss relief
- share loss relief.

But this does not include relief that you have claimed for in respect of any pension contributions that you made in 2010–11.

Step 4

From the amount found after Steps 1, 2 and 3 deduct the amount of pension contributions for 2010–11 for which you can get relief. If the amount of those contributions is more than £20,000, the maximum deduction you can make is £20,000.

Step 5

Add the amount of any salary sacrifice relating to contributions to, or benefits under, a pension scheme where you made the sacrifice agreement on or after 22 April 2009.

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Step 6

From the amount found after Step 5, deduct any amount that qualifies for 'Gift Aid' tax relief in 2010–11.

If the result is £130,000 or more, the Special Annual Allowance applies to you for the 2010–11 tax year. If the resulting figure is less than £130,000, you must carry out the same calculation but in relation to the 2009–10 tax year. If the resulting figure is £130,000 or more, the Special Annual Allowance applies to you for the 2010–11 tax year. If not, do the same calculation again but for the 2008–09 tax year, except there will be no Step 5. Again, if the result is £130,000 or more, the Special Annual Allowance applies to you for the 2010–11 tax year.

If the resulting figure is £130,000 or more you must carry out Step 7 unless you had relevant income of £150,000 or more for 2009–10 (in practice this means your total income was £150,000 or more for any of 2007–08, 2008–09 or 2009–10).

Step 7

If the resulting income figure is £130,000 or more and you did not have relevant income of £150,000 or more for 2009–10 you need to carry out Steps 1 to 6 again for the 2010–11 tax year, but at Step 5 you need only take account of salary sacrifice agreements made on or after 9 December 2009. If the resulting figure is still £130,000 or more, the Special Annual Allowance applies to you for the 2010–11 tax year.

If the resulting figure is less than £130,000, you must carry out the same calculation but in relation to the 2009–10 tax year. If the resulting figure is £130,000 or more, the Special Annual Allowance applies to you for 2010–11. If not, do the same calculation again but for the 2008–09 tax year except there will be no Step 5. Again, if the resulting figure is £130,000 or more, then the Special Annual Allowance applies to you for the 2010–11 tax year.

If the resulting figure is less than £130,000 the Special Annual Allowance does not apply to you for the 2010–11 tax year.

What is my Special Annual Allowance for 2010–11?

The amount of your Special Annual Allowance will depend on your circumstances.

Your Special Annual Allowance for 2010–11 will be either:
- £30,000
- an amount of more than £20,000 but less than £30,000, or
- £20,000.

but your Special Annual Allowance for 2010–11 will only be based on one of the above amounts – the starting amount – if certain possible deductions have to be made from the starting amount.

Your Special Annual Allowance is £30,000, or an amount of more than £20,000 but less than £30,000, if:
- you have (or a person such as your employer has on your behalf) made infrequent contributions to money purchase arrangements in any of the 2006–07, 2007–08, and 2008–09 tax years, and
- the average of those contributions over that three year period is greater than £20,000.

Take the average figure as your Special Annual Allowance but take £30,000 as your Special Annual Allowance if the average figure is £30,000 or more. Otherwise take £20,000 as your Special Annual Allowance. For example, if you had infrequent money purchase contributions of £10,000 in 2006–07, none in 2007–08 and £70,000 in 2008–09, the average amount of those contributions would be £26,667. Your Special Annual Allowance for 2010–11 would be £26,667.

However, the amount that you have found from the above might only be the starting amount for the purpose of your Special Annual Allowance for 2010–11 if certain possible deductions have to be made from that starting amount. Your actual Special Annual Allowance for 2010–11 will then be the starting amount less the amount of the deductions.

What are infrequent money purchase contributions?

These are contributions made by you, other people on your behalf, and your employer to money purchase arrangements. These include an employer's 'defined contribution' pension scheme, a personal pension scheme or a stakeholder pension scheme, in any of the 2006–07, 2007–08, or 2008–09 tax years where those contributions have been paid less frequently than quarterly; typically contributions that were made as one-off payments.

Contributions that were made on a regular basis to money purchase arrangements, for instance at least quarterly, or more typically monthly, are not included and nor are any contributions to a defined benefits arrangement.

What are the certain possible deductions made against my Special Annual Allowance?

If, in 2010–11, you have a protected pension saving then this amount of pension saving is deducted from your starting amount of Special Annual Allowance.

For example, if your starting amount of Special Annual Allowance was £30,000 but you had a protected pension saving of £25,000 in 2010–11, your Special Annual Allowance for 2010–11 is £5,000.

If the amount of your protected pension saving for 2010–11 is more than the starting amount of Special Annual Allowance, your Special Annual Allowance for 2010–11 is nil.

What is my protected pension saving?

How you determine your protected pension saving for 2010–11 depends on the type of your pension saving. For money purchase arrangements (that is, where you are building up a pension pot) in an overseas pension scheme it is all contributions made in 2010–11 by you and by other people on your behalf, plus a fraction of the contributions made by your employer that have continued to be made on a regular basis since before 22 April 2009 (since before 9 December 2009 if you did not have relevant income of £150,000 or more for 2009–10), under terms that have not changed since that date. A 'regular basis' means contributions that were being paid at least quarterly (monthly is more typical).

The fraction you have to apply to the contributions made by your employer is TE/EI. EI is the total amount of your employment income from any

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employment with an employer that made contributions to the arrangement in 2010–11. TE is so much of EI as is UK taxable earnings.

For example, if since before 22 April 2009, you have continued to pay monthly contributions of £1,000 per month throughout 2010–11 to an overseas pension scheme, and your employer has continued to pay quarterly contributions of £5,000. Your total income from the employer (EI) in 2010–11 is £100,000, of which £50,000 is UK taxable earnings (TE). Your total pension saving for 2010–11 in relation to that arrangement is £22,000. That is £12,000 + (£20,000 x 50,000/100,000). All of it is protected pension saving.

If after six months, you decided to increase your monthly contributions to that arrangement to £2,000 per month but your employer's contributions stayed the same, your total pension saving in relation to the arrangement is £28,000. But only £22,000 of that total pension saving is protected. The balance, £6,000, is a non-protected increase and is tested against your Special Annual Allowance.

If the monetary amount of your regular contributions to a money purchase arrangement increased during 2010–11 because those contributions were based on a rate linked to pay where the rate did not change but the pay increased (for example, the contributions were 5% of pay), the increased amount of pension saving would still be protected provided the terms that resulted in that increase were in place before 22 April 2009 (before 9 December 2009 if your relevant income was less than £150,000 for 2009–10).

For defined benefits arrangements (where you build up specified pension rights, for example, one-sixtieth of pay for each year of service) and cash balance arrangements, (that is, where there is a promised pot but without specifying the form of benefit) it is in respect of benefits that have continued to accrue under an arrangement since before 22 April 2009 (before 9 December 2009 if your relevant income was less than £150,000 for 2009–10) where, on or after that date, there has been no material change to the way those benefits were accruing. Such a material change can be ignored, however, provided the change applied to at least 50 members of the pension scheme.

If you joined an employer's pension scheme on or after 22 April 2009 (on or after 9 December 2009 if your relevant income was less than £150,000 for 2009–10), the pension saving under that scheme is protected provided you are included in a group of at least 20 people under the pension scheme who are building up benefits under the pension scheme on the same basis.

What are refunded amounts?

These are amounts that represent certain non-protected pension savings you made during 2010–11 that you received a refund of from the pension scheme in the 2011–12 tax year.

How do I know if I have exceeded my Special Annual Allowance?

First you must add up all of your pension savings in overseas pension schemes (and in any UK registered pension scheme) for 2010–11. From that total amount of pension savings deduct the amounts which represent your:

- protected pension saving for 2010–11, and
- any refunded amounts.

Any amount left over is your non-protected pension saving for 2010–11 and this amount is tested against your Special Annual Allowance. If that amount exceeds your Special Annual Allowance that part of the amount over your allowance – the excess – is subject to the Special Annual Allowance excess tax charge.

What is counted as an increase in my pension savings in an overseas pension scheme in 2010–11?

This will depend on the nature of your arrangement in a pension scheme. The increase in your pension savings is counted in the following ways.

Money purchase arrangement

This is an arrangement under which you are building up a pension pot. The increase in your pension savings is all contributions made in 2010–11 by you and by other people on your behalf plus the TE/EI fraction (see the section 'What is my protected pension saving?' on page 10) of the contributions made by your employer in 2010–11. If you have had any money allocated to you arising from unallocated employer contributions held in the scheme, include these also.

Defined benefits arrangement

This is an arrangement under which you build up specified pension rights, for example, one-sixtieth of pay for each year of service. The increase in your pension savings is the greater of:

- the total amount of UK tax-relieved contributions paid by you or on your behalf (but not by an employer) to the arrangement in 2010–11, and
- the fraction below of the capital value of the increase of your rights in the arrangement in 2010–11.

The fraction you have to apply is TE/EI. EI is the total amount of your employment income from any employment with an employer that is sponsoring the scheme in 2010–11. TE is so much of EI as is UK taxable earnings.

The capital value of the increase in your rights in 2010–11 is calculated in the same way as your pension input amount (see the note for box 8 on page 3, and the section 'Defined benefits arrangement' which follows it).

If you pay voluntary contributions to top-up defined benefit pension rights:

- count them as a money purchase arrangement if the top-up is building up a pot
- count them as a defined benefit arrangement if you are buying added years of pension rights.

If your defined benefit rights throughout 2010–11 are deferred rights and not as an active member, for example, because you have left employment, do not count any annual increase which is ordinarily made under the scheme provisions to those rights.

Cash balance arrangement

This is an arrangement under which there is a promised pot but the form of benefit is not specified. The increase in your pension savings is the greater of:

- the total amount of UK tax-relieved contributions paid by you or on your behalf (but not by an employer) to the arrangement in 2010–11, and
- the fraction below of the increase in 2010–11 in the promised amount that will be available for the provision of benefits.

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The fraction you have to apply is TE/EI. EI is the total amount of your employment income from any employment with an employer that is sponsoring the scheme in 2010–11. TE is so much of EI as is UK taxable earnings.

The increase in the amount available for the provision of benefits rights in 2010–11 is calculated in the same way as your pension input amount (see the note for box 8 on page 3, and the section 'Cash balance arrangement' which follows it).

Hybrid arrangement

For hybrid arrangements (where your eventual pension might come from more than one of the above types of arrangement, but you will ultimately only receive benefits from one of the types) count whichever of the types that apply to you that produces the greater amount.

All arrangements

Remember, once you have added up all of your pension saving for 2010–11 deduct any amounts that represent your protected pension saving for the year and any refunded amounts. Any balance left over is then tested against your Special Annual Allowance.

For example, if the starting amount of your Special Annual Allowance is £30,000 (because of infrequent money purchase contributions you paid in the three tax years up to 2008–09) and your only protected pension saving for 2010–11 is £12,000 (represented by monthly contributions of £1,000 to an overseas personal pension scheme) your Special Annual Allowance for 2010–11 is £18,000 (£30,000 less the amount of your protected pension saving).

If you also made other pension savings of £20,000 in 2010–11 your total amount of pension saving would be £32,000 but as your protected pension saving is £12,000, that other pension saving of £20,000 is non-protected.

Only the non-protected pension saving of £20,000 is tested against your Special Annual Allowance for 2010–11 of £18,000. As the amount of the non-protected pension saving is more than your Special Annual Allowance, you are liable to a tax charge on the excess amount of £2,000 (being £20,000 less £18,000). How much of the excess amount is put in box 9 and/or box 10 in order to establish your tax liability is explained previously under the heading 'Amount saved towards your pension in excess of the Special Annual Allowance'.

You can ignore the pension saving made under certain pension arrangements if you took all of your benefits in 2010–11 from those arrangements. The certain arrangements are defined benefits arrangements under a pension scheme with at least 20 members who have defined benefits under the same scheme, and any type of arrangement if you took all of the benefits due to you retiring on ill-health grounds.

If you are the personal representative of a scheme member who died during 2010–11 and you are filling in this form on that person's behalf for the period up to the date of death you can ignore the pension saving made under certain pension arrangements. The certain arrangements are defined benefits arrangements under a pension scheme with at least 20 members who have defined benefits under the same scheme, and any type of arrangement in the case of employment related pension saving if, in 2010–11, the person took all of the benefits due on ill-health grounds.

More information

For more details about the Special Annual Allowance, please see the *Registered Pension Schemes Manual*, from page RPSM13102450 at **www.hmrc.gov.uk**

Boxes 11 to 14 *Unauthorised payments charge and surcharge and short service refund charge*

You can ignore boxes 11 to 14 if you were not UK resident in 2010–11 nor in any of the previous five tax years.

You may be liable to any of these charges if you have UK tax-relieved funds or UK transferred funds in an overseas pension scheme.

You may have in an overseas pension scheme a mixture of:

- UK tax-relieved funds
- UK transferred funds, and
- other funds.

If so, payments from the scheme are deemed to come first from the UK tax-relieved funds and the UK transferred funds until both of those funds are reduced to nil. Payments can only give rise to any of these charges if they are deemed to have come from the UK tax-relieved funds or the UK transferred funds. You can find more information about that in the *Registered Pension Schemes Manual*, from page RPSM13102190.

The amount of your UK tax-relieved funds in an overseas pension scheme is the aggregate of your pension input amounts in it for each tax year from 2006–07. The way in which your annual pension input amount is calculated is explained in the note for box 8 on pages 3 to 5.

Boxes 11 and 12 *Unauthorised payments charge and surcharge*

Unauthorised payments are payments by overseas pension schemes from the UK tax-relieved funds or the UK transferred funds which are made either to you or in respect of you and which:

- are specifically described in the UK pensions tax legislation as being unauthorised payments, or
- do not fit within the UK pensions tax legislation as being an authorised payment.

'Payments' need not necessarily be monetary amounts but may include, for example, a transfer of assets.

You can find more information about whether or not a payment is unauthorised and on how to value payments in the *Registered Pension Schemes Manual*, from page RPSM04104010.

Unauthorised payments charge

If you received an unauthorised payment, or if one was paid to someone else but in respect of you, you are liable to an Income Tax charge of 40% of the value of the unauthorised payment. This is called the unauthorised payments charge.

Unauthorised payment surcharge

An unauthorised payment surcharge applies where the amount of the unauthorised payments made to, or in respect of, you in a 'surcharge period' (see page 15) reaches a set 'surcharge threshold'. This is where the amount

Contacts

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of the unauthorised payments from an overseas pension scheme reaches 25% of the total value of your rights from your UK tax-relieved funds and UK transferred funds under that scheme. The surcharge is an Income Tax charge of 15% of the value of the unauthorised payment, and is on top of the 40% unauthorised payments charge.

Unauthorised payment surcharge period

A surcharge period starts on the date that the first unauthorised payment was made to, or in respect of, you and ends:

- 12 months after that date, or
- on the day on which the surcharge threshold is reached, if earlier.

So if in any 12 months the total unauthorised payments to you or in respect of you from your UK tax-relieved funds and UK transferred funds in a particular scheme are less than 25% of the value of rights from those funds, there is no unauthorised payments surcharge.

For more details about the unauthorised payments charge and the unauthorised payments surcharge please see the *Registered Pension Schemes Manual*, from page RPSM13102110.

Box 11 *Amount of unauthorised payment from a pension scheme, not subject to surcharge*

If you received an unauthorised payment, and the payment is not subject to the unauthorised payments surcharge, enter the amount of the unauthorised payment in box 12. But see the note on 'Unauthorised payment not subject to surcharge when paid which later becomes subject to surcharge' below.
You can convert the payment into sterling using the spot rate for the date of payment.

Box 12 *Amount of unauthorised payment from a pension scheme, subject to surcharge*

If you received an unauthorised payment, and the payment is subject to the unauthorised payments surcharge, enter the amount of the unauthorised payment in box 11. But see the note below. You can convert the payment into sterling using the spot rate for the date of payment.

Unauthorised payment not subject to surcharge when paid which later becomes subject to surcharge

If an unauthorised payment was paid to or in respect of you in the previous tax year that was not subject to the unauthorised payments surcharge when it was paid, that payment might become subject to the surcharge because of an unauthorised payment paid to or in respect of you in this tax year. That is because the further payment means the surcharge threshold is reached and all of the payments fall within the same surcharge period. If this happens please contact us about your tax return for 2009–10.

Box 13 *Foreign tax paid on an unauthorised payment (in £ sterling)*

As the unauthorised payments charge and surcharge are not charges on income, they are not exempted by any of the UK's Double Taxation Agreements. However, if a payment gives rise to a charge (and a surcharge) you can receive credit for foreign tax paid on the payment that can be set against the charge (and the surcharge).

Enter in box 13 the sterling equivalent of the amount of any foreign tax that you have paid on a payment entered in box 11 or box 12. You can convert the amount into sterling using the spot rate for the date of the tax payment.

If, after you have submitted this tax return, you pay foreign tax in respect of a payment entered in box 11 or box 12 on which you have paid an unauthorised payments charge (and a surcharge), you can then make a claim for an appropriate adjustment to be made in your liability to UK tax. If you are not sure what to do you can ask us about this.

Box 14 *Taxable short service refund of contributions (overseas pension schemes only)*

If you have not received any lump sum payments from overseas pension schemes during 2010–11, do not complete box 14.

If you left pensionable service in an overseas pension scheme, and received in 2010–11 a refund of UK tax-relieved contributions that you made to that scheme, you are liable to a tax charge on that refund.

The amount of tax due on a refund is:
- 20% on the first £20,000, and
- 50% on any amount over £20,000.

You can find more information about short service refunds and liability to tax on them in the *Registered Pension Schemes Manual*, from pages RPSM04101090 and RPSM13102110.

Enter the amount of your refund of UK tax-relieved contributions at box 14. You can convert the refund into sterling using the spot rate for the date of payment.

Box 15 *Taxable lump sum death benefit payment (overseas pension schemes only)*

You may need to make an entry in box 15 if after the death of a member of an overseas pension scheme you have received in 2010–11 from the deceased member's UK tax-relieved funds or UK transferred funds any of the following lump sum payments:
- a pension protection lump sum death benefit
- an annuity protection lump sum death benefit
- an unsecured pension fund lump sum death benefit.

You can find more information about those lump sum death benefits in the *Registered Pension Schemes Manual*, from page RPSM04101110.

If the deceased member had a mixture of UK tax-relieved funds, UK transferred funds and other funds in an overseas pension scheme, payments from it are deemed to come first from the UK tax-relieved funds and the UK transferred funds until they are reduced to nil. Such payments can only give rise to a charge if they are deemed to have come from those funds. You can find more information about this in the *Registered Pension Schemes Manual*, from page RPSM13102190, at **www.hmrc.gov.uk**

You can ignore box 15 if the deceased member was not UK resident in 2010–11 nor in any of the previous five tax years.

The tax charge is at the rate of 35% on the amount of the benefit payment. Enter the amount of the benefit received at box 15. You can convert that amount into sterling using the spot rate for the date of payment.

Box 16 *Taxable refunds of contributions (overseas pension schemes only)*

If you have not received any lump sum payments from overseas pension schemes during 2010–11, do not complete box 16.

Contacts

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These refunds are of amounts that represent certain non-protected pension savings (see the note for boxes 9 and 10 on page 5).

The amount of tax due on a refund is 50% on the amount refunded. You can find more information about taxable refunds of contributions and liability to tax on them in the *Registered Pension Schemes Manual*, pages RPSM13102475 and RPSM13102490.

Short service refunds of contributions are a different type of refund and you should enter those in box 14.

Box 17 *Foreign tax paid (in £ sterling) on boxes 14, 15 and 16*

As the tax charges on short service refunds of contributions, lump sum death benefit payments and on taxable refunds of contributions are not charges on income they are not exempted by any of the UK's Double Taxation Agreements. If a payment gives rise to such a charge, however, you can receive credit for foreign tax paid on the payment that can be set against the charge.

If you have paid foreign tax on any payments that you have entered in box 14 and/or boxes 15 and 16, enter the sterling equivalent of the tax paid in box 17. Add the amounts together where foreign tax has been paid on more than one type of payment. Convert the foreign tax paid into sterling at the rate of exchange prevailing on the date of each tax payment.

If, after you have submitted this tax return, you pay foreign tax in respect of a payment entered in boxes 14, 15 or 16 on which you have paid such a UK tax charge, you can then make a claim for an appropriate adjustment to be made in your liability to UK tax. If you are not sure what to do you can ask us about this.

Trivial commutation and winding-up lump sums

If in 2010–11 you have received a payment from an overseas pension scheme that qualifies as a trivial commutation lump sum or a winding-up lump sum (see below for conditions) you are liable to an Income Tax charge on the lump sum. If you have not previously received or become entitled to any benefits from the scheme then 75% of the lump sum is taxable. If you have previously received a pension, or become entitled to any other benefits, from the scheme then:

- all of that part of the lump sum that is extinguishing your rights to the pension, or any other benefits, that you are already drawing is taxable, and
- 75% of the remaining part of the lump sum – the part which relates to rights that had not yet come into payment – is taxable.

You should include the amount that is taxable in the 'other taxable income' box on page TR 3 of your tax return. Do not include the amount in any of the above boxes.

Conditions

A lump sum that you received in 2010–11 from an overseas pension scheme may be a trivial commutation lump sum if:

- it does not exceed £18,000,
- it was paid after you reached age 60 and before you reached 75
- it extinguishes your entitlement to benefits under the scheme

- the value of your benefit entitlement under all overseas pension schemes (and any UK registered pension scheme) on the date nominated for valuation purposes (see the *Registered Pension Schemes Manual* at page RPSM09104950) before the lump sum was paid did not exceed £18,000
- you have Available Lifetime Allowance when the lump sum is paid (see the note for boxes 5 to 7 starting on page 2, and in the *Registered Pension Schemes Manual*, from page RPSM11100000), and
- you have not previously been paid a trivial commutation lump sum from an overseas pension scheme (or any UK registered pension scheme), after 5 April 2006, or if such a payment was made it was within 12 months of this payment and the rights underlying that payment were included in the valuation on the 'nominated date'.

Up to £18,000 of a lump sum that you have received in 2010–11 from an overseas pension scheme that is being wound up may be a winding-up lump sum if:

- it was paid before you reached 75
- it extinguishes your entitlement to benefits under the scheme
- the scheme is an occupational pension scheme,
- you have Available Lifetime Allowance (see the note for boxes 5 to 7 starting on page 2, and in the *Registered Pension Schemes Manual*, from page RPSM11100000), and
- an employer which has made contributions in respect of you to the scheme in the last five years is not making contributions in respect of you under any other pension scheme (or UK registered pension scheme) and has undertaken not to make such contributions for one year after the lump sum is paid.

If you have received a lump sum of more than £18,000 and all of these conditions are met then the payment of £18,000 will be a winding-up lump sum. But the remaining part of the lump sum may be an unauthorised payment (see the note for boxes 11 and 12 on page 14).

For more details about trivial commutation lump sums and winding-up lump sums, please see the *Registered Pension Schemes Manual*, from page RPSM09104900 and from page RPSM09105100, at **www.hmrc.gov.uk**

Working Sheet – total pension savings charges

Use this Working Sheet to work out the figure to put into box 6 on the *Tax calculation summary* pages. The box numbers referred to in the Working Sheet below refer to the boxes on page Ai 4 of the *Additional information* pages.
If any box on this Working Sheet is negative substitute zero.

Lifetime Allowance charge

Excess taken as lump sum	*from box 5 on Ai 4*	1	£	box 1 @ 55%	2	£
Excess not taken as a lump sum	*from box 6 on Ai 4*	3	£	box 3 @ 25%	4	£
Lifetime Allowance charge				box 2 + box 4	5	£
Tax paid	*from box 7 on Ai 4*	6	£	lower of boxes 5 and 6	7	£
Lifetime Allowance charge due				box 5 minus box 7	8	£

Annual Allowance charge

Amount in excess of Annual Allowance	*from box 8 on Ai 4*	9	£	box 9 @ 40%	10	£

Special Annual Allowance charge

Amount in excess of Special Annual Allowance	*from box 9 on Ai 4*	11	£	box 11 @ 20%	12	£
	from box 10 on Ai 4	13	£	box 13 @ 30%	14	£

Unauthorised payments

'Not subject to surcharge' amount	*from box 11 on Ai 4*	15	£	box 15 @ 40%	16	£
'Subject to surcharge' amount	*from box 12 on Ai 4*	17	£	box 17 @ 55%	18	£
Unauthorised payment charge and surcharge				box 16 + box 18	19	£
Foreign tax deducted	*from box 13 on Ai 4*	20	£	lower of boxes 19 and 20	21	£
Unauthorised payment charge and surcharge due				box 19 minus box 21	22	£

(Overseas) short service refund charge

Taxable short service refund of contributions	*from box 14 on Ai 4*	23	£			
		24	£20,000			
	lower of boxes 23 and 24	25	£	box 25 @ 20%	26	£
	box 23 minus box 25	27	£	box 27 @ 50%	28	£
Short service refund charge				box 26 + box 28	29	£

(Overseas) special lump sum charges

Taxable lump sum death benefit payment	*from box 15 on Ai 4*	30	£	box 30 @ 35%	31	£
Taxable refunds of contributions	*from box 16 on Ai 4*	32	£	box 32 @ 50%	33	£
				box 29 + box 31 + box 33	34	£
Foreign tax deducted	*from box 17 on Ai 4*	35	£	lower of boxes 34 and 35	36	£

Working Sheet – total pension savings charges *continued*

Tax due on taxable lump sum payments from overseas pension schemes	box 34 minus box 36	37	£
Total pension savings charges Copy box 38 to box 6 on the *Tax calculation summary* pages	box 8 + box 10 + box 12 + box 14 + box 22 + box 37	38	£

These notes are for guidance only and reflect the position at the time of writing. They do not affect any rights of appeal. Any subsequent amendments to these notes can be found at **www.hmrc.gov.uk**