

Guide for pension and annuity payers

This Guide supplements the information in the Employer Further Guide to PAYE and NICs (CWG2) for pension and annuity payers. It gives more detailed information and covers some less common situations

This guide is not comprehensive and has no legal force

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1. Aim and introduction

All pensions and annuities from, or in respect of, a registered pension scheme or schemes which were formerly retirement annuity contracts are PAYE pension income.

Information about the day-to-day operation of PAYE on pension payments made by former employers and other pension payers is given in Chapter 2 of the Employer Further Guide to PAYE (CWG2)

This Guide gives more detail and covers some less common situations for payers of pensions and annuities. The aim is to ensure that all payers use the same procedures.

All references in this document to online filing refer to both Internet and Electronic Data Interchange (EDI).

2. National Insurance numbers: Date of Birth: Gender: Address

2a National Insurance number

This is a unique reference number used by HM Revenue & Customs. If you have the National Insurance number of the pension recipient you should enter it on the forms:

- P11 (*Deductions Working Sheet*)
- P14 (*End of Year Summary*)
- P46(Pen) (introduced in April 2009)
- P45 (starter/leaver details).

2b Date of Birth and Gender

You **must** always enter a date of birth and gender when sending us starter and leaver notifications.

You **must not** use a default date of birth when advising us that a pension has started or ceased.

It would also be helpful if for each pension recipient you entered the date of birth and gender on forms P11 and P14.

2c Address

You should make every effort to obtain the postal address of the pension recipient as HMRC do not want personal information to be sent to the wrong customer. The address we hold on our records will be the address we use if we need to send a coding notification or tax return. The address on starter notifications is mandatory. It would be helpful if it is also included on form P45 Part 1 and form P14 as it helps us to identify and match details against the pension recipient's record.

3. Pension payments first start

Pension payers must tell HMRC about **all** pensions paid of £1 or over.

3a Introduction of new pension form from 6 April 2009

A new form P46(Pen) was introduced on 6 April 2009. It replaced forms P160 and P46 and should be used to tell HMRC about new pension recipients.

We have asked software developers to rename the PENNOT (Pension Notification) currently used by online submitters to P46(Pen) from 6 April 2009.

If, as a pension payer, you are given a P45 Part 3, we would prefer you to send the details to us using form P46(Pen). This will help HMRC to identify pension recipients when payments first start.

From 6 April 2009 the only starter and leaver forms that should be used by pension and annuity payers are P46(Pen), P45 Part 3 and P45 Part 1.

3b Paper forms and online submissions

Table 1: If the pension recipient gives you a form P45 Parts 2 and 3 as the pension payer

PAYE Process <i>If you have 50 or more employees you must send this information online</i>
Use the Code on the P45 Part 3 on a Week 1/Month 1 basis until you hear from us
<i>Online and paper forms</i> You can complete P45 Part 3, but we would <i>prefer</i> you to send form P46(Pen) – see 'Table 2: If the pension recipient does not give you a form P45 Parts 2 and 3' below Send the completed form to HMRC – remember, this may have to

be online
Prepare a form P11 for PAYE purposes only – see Employer Helpbook E13(2009)
If we have not contacted you by 6 April (or the first pension payment is to be made after 5 April) carry forward the existing code to the new tax year. Use the same code number on a cumulative basis and apply any uplifts if appropriate as instructed on the P9X
Complete form P14 at the end of the tax year in accordance with Employer Helpbook E10 'Finishing the tax year up to 5 April 2010'.

Table 2: If the pension recipient does not give you a form P45 Parts 2 and 3

PAYE Process
<i>If you have 50 or more employees you must send this information online</i>
<p><i>Online and paper forms</i> Complete 'Pension recipient' and 'About the pension/ income drawdown/income withdrawal' details on form P46(Pen)</p> <p>If you have been referred to this table from '<i>Table 1: If the pension recipient gives you a Form P45 Parts 2 and 3</i>' you should enter the 'Previous employment' details shown on the P45 Part 3 onto the form P46(Pen)</p>
<p>Do not give the form to the pension recipient to complete. This is particularly important where the pension is paid to a widow or widower following the death of their spouse</p>
Send the completed form P46(Pen) to HMRC - remember, this may have to be online

<p>Prepare a form P11 for PAYE purposes only – see Employer Helpbook E13 (2009)</p>
<p>Use the emergency code on a Week 1 or Month 1 Basis until you hear from us If you have been referred to this table from '<i>Table 1: If the pension recipient gives you a Form P45 Parts 2 and 3</i>' you should operate the code number shown on form P45 Part 3 on a Week 1/Month 1 basis</p>
<p>If we have not contacted you by 6 April (or the first pension payment is to be made after 5 April), continue to operate the code in use on a cumulative basis and apply any uplifts if appropriate as instructed on the P9X</p>
<p>Complete form P14 at the end of the tax year in accordance with Employer Helpbook E10 'Finishing the tax year up to 5 April 2010'</p>

*Table 3: If the pension is to be paid by you as the employer and there is **no** change to the PAYE employer reference*

<p>PAYE Process</p>
<p><i>If you have 50 or more employees you must send this information online</i></p>
<p>Do not treat the employee as leaving your employment</p>
<p>Do not complete a P45 part 1</p>
<p><i>Online and paper forms</i> Complete 'Pension recipient' and 'About the pension/ income drawdown/income withdrawal' details on form P46(Pen). Complete the 'Previous employment details on form P46(Pen) but show the 'Total pay to date' and 'Total tax paid to date' as the pay and tax details to the date of retirement. Show the retirement date in the 'Date of leaving' field.</p>
<p>Give the employee a copy of the form or online details</p>

Use the existing code on a Week 1/Month 1 basis until you hear from us
If we have not contacted you by 6 April (or the first pension payment is to be made after 5 April), carry forward the existing code to the new tax year. Use the same code number on a cumulative basis and apply any uplifts if appropriate as instructed on the P9X

4. Payments due to the pension recipient after death

If you have 50 or more employees you must send this information online

If a pension recipient dies, either:

- send P45 Part 1 online to HMRC. Do not prepare or issue P45 Parts 1A, 2 and 3, or
- send all 4 parts of P45 to HMRC on paper.

If a late payment is due to be made to the personal representative for a period prior to the date of death, but after the P45 has been sent to HMRC:

- do not issue a second P45
- use the current code if the pension payment is made in the same tax year
- use code BR if the pension payment is made in the following tax year
- add the late payment to the details on the P14 at the end of the year.

Table 4: If the payment of the pension is passing from the pension recipient to another individual

PAYE Process
<i>If you have 50 or more employees you must send this information online</i>
A P46(Pen) is required for each individual beneficiary
Enter the pension recipient's <u>own</u> National Insurance number, date of birth and gender on the form

Follow the process
*'Table 2: If the pension recipient does not give you a form P45
 Parts 2 and 3' above*

If the payment of the pension is passing from the pension recipient to someone other than an individual.

- do not send a P46(Pen)
 - operate code BR
 - at the end of the year, send a P14 showing details of payments made.
- You should:
- leave the National Insurance number blank
 - enter Gender as male
 - enter forename as RP
 - enter surname with the name of the non individual.

5. Trivial commutation payments

A trivial commutation pension payment is where an amount is made as a 'one off' payment rather than making a weekly, monthly or annual pension payment. This usually happens when the annual amount of pension would be a small amount.

<i>Commutation payment where pension payments have already started</i> <i>If you have 50 or more employees you must send this information online</i>	<i>Commutation payment where pension payments have not started</i> <i>If you have 50 or more employees you must send this information online</i>
Include the taxable commutation payment on the form P11 you have for pension payments and operate PAYE in the normal way	Do not use form P46(Pen)
Prepare form P45 including the taxable commutation payment and the pension payments made in the year	Prepare form P11 (see Employer Helpbook E13(2009) and record the taxable commutation payment
Give form P45 Parts 1A, 2 and 3 to the pension recipient	Deduct tax using emergency code on a week 1/Month 1 basis
Send P45 Part 1 to HMRC	Prepare form P45 including the

immediately	taxable commutation payment. As it is a single payment the date of payment should be regarded as both the starting and leaving date
	Give form P45 Parts 1A, 2 and 3 to the pension recipient
	Send P45 Part 1 to HMRC immediately

6. Aggregation

6a Multiple Pensions

A pension provider may pay two or more pensions to the same pension recipient from either the same or different employers.

If the payments are kept separate follow the process in '*Table 2: If the pension recipient does not give you a form P45 Parts 2 and 3*'.

If the payments which were originally treated separately are subsequently merged, a form P45 Part 1 should be sent (online if you have 50 or more employees) to HMRC in respect of any of the pensions on which you will not operate PAYE so that HMRC has only one record for the pension recipient.

If any further pensions are aggregated, you do not need to tell HMRC when the new pension starts.

It is the pension recipient's responsibility to tell HMRC if they receive allowances to which they are no longer entitled, for example, Age Allowance.

6b Pension and employments

Pension and salary payments should **not** be aggregated.

If an employee starts to draw a pension that is paid by the same employer after retirement but the employment continues, the employer/pension payer should;

- continue to use the code in operation against the employment income
- send HMRC form P46(Pen)

If you have 50 or more employees you must send this information online

- use the same code on a Week 1/Month 1 basis against the pension payments

HMRC will review the employee/pension recipients tax records and issue revised code numbers as soon as possible.

7. Non-Residents

For the purposes of this Guide, “non-resident” means living abroad.

It is the pension recipients own responsibility to tell HMRC that they have moved overseas. However, when you are aware that a pension recipient has moved you should:

- use the code for the current year, if known, or
- use the emergency code on a Week 1/Month 1 basis.

It is the pension recipients own responsibility to tell HMRC when they return to live in the UK. However, when you are aware they have returned to the UK from overseas you should:

- use the code for the current year if known, or
- use the emergency code on a Week 1/Month1 basis.

8. Income Drawdown

Payments made under the Income Drawdown provisions are treated as pension payments.

When the first relevant payment is made:

- send a completed form P46(Pen) online if you are required to or on paper .
- use the code for the current year, if known, or
- use the emergency code on a Week 1/Month 1 basis.

9. Unable to trace pension recipient

If you are unable to trace a pension recipient and have to suspend their pension payments you may need to terminate their annuity policy as if the pension policy has been cancelled. If the annuitant contacts you at a later date and you reinstate the pension and pay pension arrears backdated to when we first suspended payments, you should;

- send a P45 Part1 with Nil pay and tax when you terminate the policy
- send a letter of explanation to your local office when the pension recipient is traced and you are about to make the back-dated payment. This is so HMRC can reinstate the pension record and remove the ceased date.

10. Relating pension payments to the correct year

Pension payers should be aware the taxable UK pension is the amount the pension recipient is **entitled** to in the tax year. Pension recipients are often content to pay tax on the amount received in a year even if this is not the same as the amount which they are entitled to, as the amounts due and received are usually similar. However, a lump sum payment of arrears of pension may be a substantial sum covering a number of tax years. PAYE

operates at the time the pension is paid so the pension recipient may have tax deducted at higher rates and lose the benefit of allowances that would have been available if the payment was spread over the tax years to which it related. In these cases where a pension recipient asks and it is to their advantage, HMRC will recalculate the pension liability to spread the payments back over the relevant years.

11. Frequently asked questions

Q1: Do I need to tell HMRC if there is an error on a P6 for a pensioner?

A: There is no existing obligation to report P6 errors for pension recipients – or any other employee. However, it would be helpful if you tell us if you identify an incorrect name, works number etc.

Q2: If HMRC issues a cumulative code which disadvantages the pension recipient should I still apply it?

A: There is no requirement to contact HMRC. However, it would be helpful if you contacted us should you identify an incorrect code number leading to a large repayment or large deduction of tax.

Q3: Can I submit a P45 Part 1 with a date of cessation in a previous tax year?

A: A P45 Part 1 should be submitted on the date the last payment is made or as soon as possible after that date. There is no validation to stop them being issued for the previous tax year.

Q4: I have included incorrect pay or tax figures on a P45 Part 1I have sent in, what should I do?

A: You should not send a revised P45 Part 1 if the original is wrong. You should include the correct pay and tax figures on both the P11 and P14. However, it is helpful if you do tell us, as this may help to avoid refunding tax incorrectly to the pension recipient.

Q5: When a pension is paid for the first time, and includes several months' payments, what code should I use?

A: If the back payments are made in the same tax year in which the pension starts, the code should be operated on a Week1/Month1 basis. You should only allow free pay due for the month in which the payment is made.

If the back payments are made in the following tax year, the code should be operated on a cumulative basis.

For example; pension starts on 6 December at £500 per month

1st payment made 6 March (£500 x 3 months) = £1,500. Use code on a Week 1/Month 1 basis using free pay for March, or

1st payment made 6 May (£500 x 5 months) = £2,500. Use code on a cumulative basis using free pay for May.

Q6: Can I put a future date of commencement on forms P45 Part 3 and P46(Pen) or a future date of cessation on form P45 Part 1?

A: You can include dates on forms P46(Pen), P45 Parts 1 and 3 that are today's date or up to 30 days ahead.

Q7: What should I do if the pension recipient hands in form P45 Parts 2 and 3 after I have sent you a P46(Pen) but before HMRC has issued a code?

A: Check the pay and tax is correct and if it is, include it on the P11. Use the code shown on the form P45 Part 3 on a Week1/Month1 basis.

If the first pension payment is to be made after 5 April carry forward the code shown on P45 Part 3 to the new tax year. Use the code number on a cumulative basis and apply any uplifts if appropriate as instructed on the P9X. You do not need to check the pay and details on the P45 Part 3 or enter them on the P11 in these cases.

In general, if, as a pension payer, you are given a P45 Part 3, we would prefer you to send the details to us using P46(Pen). This will help HMRC to identify pension recipients when payments first start.

Q8: What should I do if the pension recipient hands in form P45 Parts 2 and 3 after HMRC has issued a code?

A: If form P45 Parts 2 and 3 are received after HMRC has issued a code, continue to use the code as notified and destroy the forms P45 Parts 2 and 3.

Q9: If the pension recipient dies and I send P45 Part 1 online, what should I do with P45 Parts 1A, 2 and 3?

A: There is no need to prepare or issue P45 Parts 1A, 2 or 3 if P45 Part 1 is sent online.