

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

This Help Sheet is about the pension savings tax charges on:

- benefits in excess of the Lifetime Allowance
- pension savings in excess of the Annual Allowance
- unauthorised payments
- short service refunds of contributions, and
- lump sum death benefit payments.

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.

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Lifetime Allowance Excess Tax Charge

to

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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 2007-08:

- 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 2007-08 you can ignore boxes 5 to 7 if:

- the aggregate value of any benefits that came into payment in 2006-07 and in 2007-08, plus the aggregate of any amounts transferred to such a scheme in 2006-07 and in 2007-08, does not exceed £1,500,000, 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

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

£1,500,000.) You can find out what a qualifying recognised overseas pension scheme is at 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 and 2007-08, 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 further 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.

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

If in 2007-08:

- 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 next section, on the Annual Allowance excess tax charge.

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.

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.

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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 2007-08, or any part of those benefits, in excess of your available Lifetime 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 2007-08, 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.

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.

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 2007-08 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 2007-08:

- your savings in overseas pension schemes have not increased by more than £225,000, 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 2007-08 tax year (the 'pension input period') was more than your Annual Allowance. The charge applies to the excess amount. The Annual Allowance for 2007-08 is £225,000.

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 2007-08 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 2007-08, and
- the fraction below of the total amount of contributions paid to it by your employer in 2007-08.

The fraction you have to apply is TE/EI .

EI is the total amount of your employment income from any employment with your employer that made contributions to the arrangement in 2007-08. 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 2007-08. 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 2007-08.

First stage

Work out the increase in your pension rights under the arrangement in the 2007-08 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 £97,500 at the end of the year the increase in 2007-08 under the arrangement is £22,500. That has a capital value of £225,000, and uses up the whole of your Annual Allowance for 2007-08.)

Then, add to that figure any increase over the 2007-08 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 2007-08, 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 2007-08. 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.

First stage

Work out any increase in 2007-08 in the promised amount that will be available for the provision of benefits. The value of the promised amount at the start of 2007-08 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 pension 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 2007-08, 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 2007-08. 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 further details about the Annual Allowance excess tax charge, please see the Registered Pension Schemes Manual, from page RPSM13102310.

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 2007-08 exceeds the Annual Allowance of £225,000 enter the excess amount in box 8. You can convert the pension input amount to sterling by using the spot rate for 5 April 2008.

9 ***Unauthorised payments charge and Surcharge, and short service refund charge***

to
12 You can ignore boxes 9 to 12 if you were not UK resident in 2007-08 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 previous section, on the Annual Allowance excess tax charge.

9 ***Unauthorised payments charge and Surcharge***

and
10 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 RPSM04104050.

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 below) reaches a set 'surcharge threshold'. This is where the amount 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 payments 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 further details about the unauthorised payments charge and the unauthorised payments surcharge please see the Registered Pension Schemes Manual, from page RPSM13102110.

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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 9. But see the note below. You can convert the payment into sterling using the spot rate for the date of payment.

10

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 10. But see the note below. You can convert the payment into sterling using the spot rate for the date of payment.

Note

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 2006-07.

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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 Arrangements.

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 11 the sterling equivalent of the amount of any foreign tax you have paid on a payment entered in box 9 or 10. 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 9 or 10 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.

12 Taxable short service refund of contributions (overseas pensions schemes only)

If you have not received any lump sum payments from overseas pension schemes during 2007-08, do not complete box 12.

If you left pensionable service in an overseas pension scheme, and received in 2007-08 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 £10,800 and
- 40% on any amount over £10,800.

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

Enter the amount of your refund of UK tax-relieved contributions at box 12. You can convert the refund into sterling using the spot rate for the date of payment.

13 Taxable lump sum death benefit payment (overseas pensions schemes only)

You may need to make an entry in box 13 if after the death of a member of an overseas pension scheme you have received in 2007-08 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 13 if the deceased member was not UK resident in 2007-08 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 13. You can convert that amount into sterling using the spot rate for the date of payment.

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Foreign tax paid (in £ sterling) on boxes 12 and 13

As the tax charges on short service refunds of contributions and on lump sum death benefit payments are not charges on income they are not exempted by any of the UK's Double Taxation Arrangements. 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 you have entered in box 12 and/or box 13, enter the sterling equivalent of the tax paid in box 14. Add the amounts together where foreign tax has been paid on both types 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 12 or 13 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.

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.

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.

Lifetime Allowance charge

Excess taken as lump sum <i>from box 5 on Ai 4</i>	<input type="text" value="1"/> £	box 1 x 55%	<input type="text" value="2"/> £
Excess not taken as lump sum <i>from box 6 on Ai 4</i>	<input type="text" value="3"/> £	box 3 x 25%	<input type="text" value="4"/> £
Lifetime Allowance charge		box 2 + box 4	<input type="text" value="5"/> £
Tax paid <i>from box 7 on Ai 4</i>	<input type="text" value="6"/> £	lower of 5 and 6	<input type="text" value="7"/> £
Lifetime Allowance charge due		box 5 minus box 7	<input type="text" value="8"/> £

Annual Allowance charge

Amount in excess of Annual Allowance <i>from box 8 on Ai 4</i>	<input type="text" value="9"/> £		
Annual Allowance charge due		box 9 x 40%	<input type="text" value="10"/> £

Unauthorised payments

'Not subject to surcharge' amount <i>from box 9 on Ai 4</i>	<input type="text" value="11"/> £	box 11 x 40%	<input type="text" value="12"/> £
'Subject to surcharge' amount <i>from box 10 on Ai 4</i>	<input type="text" value="13"/> £	box 13 x 55%	<input type="text" value="14"/> £
Unauthorised payment charge and surcharge		box 12 + box 14	<input type="text" value="15"/> £
Foreign tax deducted <i>from box 11 on Ai 4</i>	<input type="text" value="16"/> £	lower of 15 and 16	<input type="text" value="17"/> £
Unauthorised payment charge and surcharge due		box 15 minus box 17	<input type="text" value="18"/> £

(Overseas) short service refund lump sum charge

Taxable short service refund of contributions from an overseas pension scheme <i>from box 12 on Ai 4</i>	<input type="text" value="19"/> £		<input type="text" value="20"/> £ 10,800
Lower of box 19 and box 20	<input type="text" value="21"/> £	box 21 x 20%	<input type="text" value="22"/> £
Box 19 minus box 21	<input type="text" value="23"/> £	box 23 x 40%	<input type="text" value="24"/> £
Short service refund lump sum charge		box 22 + box 24	<input type="text" value="25"/> £

(Overseas) special lump sum death benefit charge

Taxable lump sum death benefit payment from an overseas pension scheme <i>from box 13 on Ai 4</i>	<input type="text" value="26"/> £	box 26 x 35%	<input type="text" value="27"/> £
		box 25 + box 27	<input type="text" value="28"/> £
Foreign tax deducted <i>from box 14 on Ai 4</i>	<input type="text" value="29"/> £	lower of 28 and 29	<input type="text" value="30"/> £
Tax due on taxable lump sum payments from overseas pension schemes <i>box 28 minus box 30</i>			<input type="text" value="31"/> £

Total pension savings charges

Box 8 + box 10 + box 18 + box 31			<input type="text" value="32"/> £
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Copy box 32 to box 6 on the *Tax Calculation Summary* pages