

■ **Lump sums and compensation payments**

The two Working Sheets in this Help Sheet tell you how to deal with lump sums that derive from an employment. They tell you what figures to enter in boxes 1.24 to 1.30 in the Employment Pages of your Tax Return.

Lump sums can arise in several different ways. For example, a lump sum may be paid on redundancy, under other terms of an employment or in respect of non-approved retirement benefits schemes.\* *(Please note that for this purpose any payment into such a scheme by your employer also counts as a lump sum received by you.)*

Different rules apply to different types of lump sums and the Working Sheets direct you through them. If you are in any doubt, ask your Tax Office or tax adviser.

Start with Working Sheet 2

You will not need to look at Working Sheet 1 unless a lump sum relates to an employment that involved 'foreign service'. So Working Sheet 2 will refer you to it at the appropriate point. 'Foreign service' is the duration of employment the pay from which was not taxed in the UK because either:

- you were 'not resident and ordinarily resident' in the UK, or
- you qualified for Foreign Earnings Deduction.

If you need advice, ask your Tax Office or tax adviser.

**FILLING IN THE WORKING SHEET**

Completing Working Sheet 2 involves four steps.

**Step 1** Enter all the lump sums you have received (regardless of whether an employer has deducted any tax under PAYE when paying the lump sum). Do not include a sum if it was paid during the tax year, for which you are filling in your Tax Return, but the termination or change it relates to took place before the start of that tax year. If so, it should be included in the tax calculations for the earlier year in which the termination or change took place. You can make the necessary arrangements by contacting your Tax Office.

**Step 2** Next, the lump sums should be divided up so that the right rules can be applied to the different types.

**Step 3** Make adjustments for the various deductions that reduce the tax to pay on the sums. You may find it useful to have your Employment Pages to hand, as you will be asked to copy figures to it as you go. However, make sure you finish all the Working Sheet boxes.

**Step 4** Calculate taxable figures. **Transfer these figures to your Employment Pages.**

**Working Sheet 1: foreign service**

First fill in boxes G to K in Working Sheet 2.

**Full exemption: box L Working Sheet 2**

You get full service exemption if:

- 75% of your service was foreign service, or
- the last 10 years were foreign service and the total service was not more than 20 years, or
- the total service was more than 20 years and 50% was foreign service (including any 10 of the last 20 years).

If this applies to you:

- ignore the rest of this Working Sheet
- return to box L and enter the lump sums there, then continue filling in Working Sheet 2.

If this full exemption does not apply, you may be entitled to a foreign service reduction. See below.

**Foreign service reduction: box N of Working Sheet 2**

If full exemption does not apply, but you have some foreign service, you still qualify for some relief.

Enter, in box A the figure from box J of Working Sheet 2

A £

B £ 30,000

**box A minus box B**  
C £

Enter the total service in the employment in **months**

D

Enter the number of **months** of foreign service in the employment

E

Box C x box E and divided by box D

F £

**Copy the figure in box F to box N on Working Sheet 2 on page 2, then fill in the rest of that Working Sheet starting at box M.**

\*A 'retirement benefits scheme' means any arrangement under which benefits may be paid in respect of retirement or death. 'Early retirement' due to redundancy or severance is not included.

*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 2**

Enter in box G the total lump sum(s) received (following the guidelines in Step 1 overleaf), whether or not tax was deducted under PAYE. Include the value of any non-cash benefits not entered elsewhere. If these were associated with a retirement scheme, ask your Tax Office for advice on the sum to enter in box I. If these were made available when you were still an employee follow the notes for box 1.12 to calculate the sum to enter in box H. Otherwise, enter the total value of the benefit you receive. Where the benefit is being made available for a period, for example, the use of a car or a loan at no or a low rate of interest, contact your Tax Office for advice on the sum to enter. Leave out sums for retirement benefit schemes that are:

G	£
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- approved by the Inland Revenue
- statutory schemes
- foreign government schemes.

Leave out counselling services provided in connection with termination of employment where they are exempt from tax; your Tax Office or tax adviser can provide further information if needed. For members of Her Majesty's forces only, also leave out any terminal grant, gratuity or other lump sum paid to you under Royal Warrant, Queen's Order or Order in Council.

Now divide the figure in box G into three parts.

(1) Calculate and enter in box H the part of the figure in box G that was:

*Enter this figure in box 1.27 unless it is zero*

H	£
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- expected by you from your employment, **or**
- paid under any term or condition of your employment (except payments for redundancy from your employer's scheme), **or**
- paid for an undertaking restricting your conduct (usually called a restrictive covenant).

(2) Enter in box I sums from non-approved retirement benefits schemes.

I	£
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(3) Enter in box J the figure in box G, *minus* the figure in box H *minus* the figure in box I. The figure in box J should reflect sums received on termination of employment.

J	£
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**Figures in boxes K to N, and P, reduce taxable amounts in boxes I or J**

Enter in box K any disability exemption claimed:

K	£
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- if your job ended because of disability (that is, you were not able to perform your duties), enter in box K the sum paid for that reason
- if a sum in box I arose due to an accident, enter that sum in box P and not in box K. If the figure in box K equals the figure in box J, go to box P.

Enter in box L any foreign service exemption claimed. Working Sheet 1 tells you what figure to use. If the figure in box L reduces the figure in box J to zero, go to box P. Consider here only lump sums in box J from employment with foreign service, and **not** any in boxes H or I.

L	£
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Enter in box M the smaller of £30,000 and the figure in box J.

**But the figure in box M must not exceed that in box J.** If the figure in box M reduces the figure in box J to zero go to box P. Do not enter in box M a figure for any lump sum which has already been entered in box L.

M	£
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*Enter this figure in box 1.24 unless it is zero*

Enter in box N any foreign service reduction claimed. Use Working Sheet 1 to calculate the figure to go here. Consider here **only** lump sums in box J from employment with foreign service and **not** any in boxes H or I.

N	£
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boxes K + L + M + N	
O	£

Enter in box P lump sums that are part of retirement or death lump sums within box I **and**:

P	£
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*Enter this figure in box 1.26 unless it is zero*

- which arose because of an accident at work, **or**
- were funded by a contribution from your employer on which you have already paid tax, **or**
- arose from your own contributions.

If the sums come from an overseas scheme, consult your Tax Office or tax adviser.

*Enter this figure in box 1.28 unless it is zero*

box I minus box P	
Q	£

*Enter this figure in box 1.29 unless it is zero*

box J minus box O	
R	£

*Enter this figure in box 1.25 unless it is zero*

boxes K + L + N	
S	£

**Note:** where tax has been deducted from the lump sum(s), you may have already included that tax in the figure in box 1.11. If you have, make no entry in box 1.30. Otherwise, enter the amount of the tax in box 1.30.