→ Brad

7.6 Contributions to approved pension schemes

Sometimes an employer will make a special contribution into an approved retirement benefit scheme at the time when an employment is terminated. Often this will be instead of some other compensation payment that would otherwise be due to the employee.

The Revenue accept that such a payment is not taxable (under s. 403) as long as the benefits are within the limits prescribed by the rules of the scheme and generally made in the form prescribed by those rules. The same applies where an employer purchases an annuity for a former employee from a life office, again as long as the transaction is properly approved.

Where such a payment is made, it should not be treated as absorbing any part of the £30,000 exemption.

The above treatment was previously set out in Revenue Statement of Practice 2/81; now, the charge is removed by s. 408. Neither the Statement of Practice nor s. 408 will affect the tax treatment under the ordinary rules of s. 62 but it is normally possible to ensure that liability does not arise under that section ('arrangements are usually made so that any entitlement to a termination payment that would fall within ITEPA 2003, s. 62 is lawfully waived before the special contribution is made' (EIM 13735)).

7.6.1 Pension term assurance

In the 2006 Pre-Budget Report, the Government announced a change to the treatment of life assurance policies that provide only lump sum death benefits alone, where these are offered as personal pension arrangements eligible for tax relief. The HMRC view was that such policies undermined the principles of the pensions tax relief legislation. However, it was stated that any changes would not affect either personal arrangements entered into before 6 December 2006 or existing types of employer arrangements.

In a later statement, HMRC confirmed that customers who had applied for policies on or before 6 December 2006 would broadly (but subject to certain conditions) continue to enjoy tax relief on such policies.

+ Grandfathering of future pension contributions at rate of £125K p.a.