These notes refer to the Finance Act 2014 (c.26) which received Royal Assent on 17 July 2014

FINANCE ACT 2014

EXPLANATORY NOTES

INTRODUCTION

Section 45: Taxable specific income: effect on pension input amount for non-UK schemes

Summary

1. This section amends Finance Act 2004 to prevent the amount that is tested against the annual allowance in respect of a relevant non-UK scheme from reducing as a result of the member having taxable specific income.

2. The section makes amendments to the "appropriate fraction" in paragraphs 10 and 11 of Schedule 34 to Finance Act 2004. Paragraphs 10 and 11 of Schedule 34 modify how the annual allowance charge applies in respect of a relevant non-UK scheme, when some or all of the pension input amounts are attributable to the member's employer. The appropriate fraction is intended to reduce the value of the pension input amounts tested against the annual allowance when some of the member's employment income for the tax year is not subject to UK tax.

Details of the Section

3. Subsections (2) and (3) provide that any taxable specific income is included in the numerator of the appropriate fraction, so treating it for the purposes of the annual allowance charge the same as other employment income that is taxable. The appropriate fraction previously not only undervalued how much of the employer pension provision was potentially subject to the annual allowance charge but in consequence also equivalently overvalued how much of that provision might count as employment income by virtue of Chapter 2 of Part 7A (employment income provided through third parties).

4. Subsection (4) provides when the amendments have effect.

Background Note

5. This section removes an anomaly resulting from the way in which the employment income tax legislation interacts with the treatment of employer contributions to relevant non-UK schemes, which could have led to another measure in Finance Act 2014 (section 50 - Employment-related securities etc) creating unintended tax and NIC liabilities for internationally mobile employees.

6. The section is covered by a resolution made under the Provisional Collection of Taxes Act 1968. Under this resolution employers account for income tax under Pay As You Earn procedures for the 2014-15 tax year in accordance with the amendments this section made before the 2014 Finance Bill received Royal Assent.