

INCOME TAX (EARNINGS AND PENSIONS) ACT 2003

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Example 3

Ne = £5,000; Da = 183; De = 183; Smg = 0

Part 9: Pension Income

Overview

Chapter 2: Tax on pension income

Overview

2266. This Chapter imposes the charge on “net taxable pension income” and explains how to calculate “net taxable pension income”. There are four steps in the process:

- **Step one** - identify the income as pension income;
- **Step two** - exclude any exempt income;
- **Step three** - calculate the amount of “taxable pension income”; and
- **Step four** - calculate “net taxable pension income” by allowing certain deductions from “taxable pension income”.

2267. These steps are carried out for each source of pension income separately; see paragraph 2275.

2268. The Chapter also includes a signpost to the various provisions that identify the person liable for any tax charged.

Section 566: Nature of charge to tax on pension income and relevant definitions

2269. This section identifies the different forms of pension income that are chargeable. It is new.

2270. “Pension income” is identified in *subsection (2)*. Pension income includes not only pensions and annuities but other types of income that are in the nature of a pension. The types of pension income are listed in *subsection (4)*. The length of the list reflects the variety of forms that pension income takes and the different ways in which those forms are treated for tax purposes.

2271. *Subsection (1)* provides that the charge on “pension income” does not apply to any exempt income. “Exempt income” is defined in *subsection (3)* to mean any income that is exempted from income tax by one of the sections in Chapters 16 to 18 of the pension

income Part. This means that “exempt income” is included in the definition of “pension income” but is not taxed as pension income. This point is reinforced in section 567(4). See paragraph 2277.

2272. For example, section 641 (wounds and disability pensions) gives an exemption to various types of war pension. Those pensions fall within the ordinary meaning of United Kingdom pension in section 569 so they are included in “pension income” but because of the exemption they are not charged to tax.

Section 567: Amount charged to tax

2273. This section imposes the charge to tax and explains how the charge is calculated. It is new.
2274. *Subsection (1)* imposes the charge.
2275. *Subsection (2)* provides that the charge is imposed on “net taxable pension income”. Each pension, annuity or other item of pension income is treated separately in the calculation of net taxable pension income. So, if a taxpayer receives two occupational pensions, net taxable pension income is calculated for the income from each pension.
2276. *Subsection (4)(a)* explains that the amount of “taxable pension income” is given in the relevant section in Chapters 3 to 15. Each of those Chapters has a section entitled “taxable pension income”. Those sections give the rules for calculating the amount of the “taxable pension income” for the income dealt with in the Chapter.
2277. *Subsection (4)(b)* makes it clear that “taxable pension income” does not include any exempt income. The definition of “exempt income” is in section 566(3).

Section 568: Person liable for tax

2278. This section is a signpost to the sections in Chapters 3 to 15 that identify the person liable to pay the tax charged. It is new.