These notes refer to the Finance Act 2013 (c.29) which received Royal Assent on 17 July 2013

FINANCE ACT 2013

EXPLANATORY NOTES

INTRODUCTION

Section 11: Exemption from Income Tax of Contributions to Pension Schemes

Summary

1. Section 11 restricts an employee's exemption from income tax on pension contributions made by their employer to a registered pension scheme. The restriction ensures that the exemption will only apply to such contributions made by an employer to their employee's arrangements under a registered pension scheme.

Details of the Section

2. Subsection 1 of the section inserts the words "in respect of the employee" at the end of Section 308 of Income Tax (Earnings and Pensions) Act 2003 ("ITEPA"). This means that an employee's exemption from income tax on an employer's contribution to a registered pension scheme will not apply where the contribution is made in respect of someone other than the employee.

3. Subsection 2 provides that the restriction has effect for the tax year 2013/14 and for subsequent tax years.

Background

4. Employees are exempt from income tax on contributions paid into registered pension schemes by their employers. This income tax exemption is provided by Section 308 ITEPA 2003.

5. Where employer pension contributions are exempt from income tax in this way, they are also excluded from earnings for the purposes of earnings-related National Insurance contributions (NICs).

6. The amount of pension contributions that benefit from tax relief is limited to an annual allowance. This allowance was reduced from £255,000 to £50,000 from the tax year 2011-12 and to £40,000 for the tax year 2014-15 onwards.

7. In response to the introduction of the lower limit in 2011-12, certain arrangements (referred to as Family Pension Plans) have been developed to side step the new rules for employees who would otherwise face an income tax charge on contributions in excess of the £50,000 limit.

8. Under these arrangements, an employer pays pension contributions into a registered pension scheme of an employee's family member as part of the employee's flexible remuneration package. The effect is that the employee is still exempt from income tax and NICs on the employer contributions into the family member's pension scheme. Furthermore, these contributions do not count towards the £50,000 limit for the employee, avoiding the income tax that would otherwise be due on the employee for contributions in excess of the limit.

9. This section ensures that employees will not enjoy exemption from income tax and NICs on such contributions into the family member's pension scheme, to protect against attempts to sidestep the Annual Allowance limit.