



Core Unit 3 – Running a Workplace Pension Scheme

Assignment 4 Notes

(Part 5 – Treasury Management)

Recommended Time: 1 Hour

1. List the various tax code letters and explain what each letter means.

10 marks

Answer should cover:

Tax Code Letter	What it means
L	Entitled to the basic tax-free standard personal allowance
M	Marriage allowance and have received a transfer of 10% of their partner's personal allowance
N	Marriage allowance and individual has transferred of 10% of their personal allowance to their partner
S	Income or pension is taxed at the Scottish rate of Income Tax
T	Tax code includes other calculations to work out the individual's personal allowance
OT	Either the individual's personal allowance has been used up, or they have started a new job and do not have a form P45, or they did not give their new employer the details they need to provide them with a tax code
BR	All income from this pension is taxed at the basic rate of 20%. This is usually applied if an individual has got more than one job or pension
D0	All income from this pension is taxed at the higher rate of 40%. This is usually applied if an individual has got more than one job or pension
D1	All income from this pension is taxed at the additional rate of 45%. This is usually applied if an individual has got more than one job or pension
NT	No tax is paid on the individual's pension

(Relevant section of the manual is Part 5 Chapter 3.3)



2. **Summarise the key tax charges that need to be reported on the accounting for tax (AFT) return.**

10 marks

Answer should cover:

The tax charges that need to be reported on the AFT return are:

- The short service refund lump sum charge. This is payable when the scheme returns contributions to an individual who was a member for less than two years. The tax charge is 20% in respect of the first £20,000 refunded, and 50% in respect of the remainder of the refund over £20,000
- The lifetime allowance charge. This is due when the scheme pays benefits to a member and they have used up their lifetime allowance. The tax charge is levied at one of two rates – 25% or 55% - with the rate applying depending on how the residual amount is to be paid by the scheme (either as a pension or lump sum respectively)
- The special lump sum death benefit charge. This is at the rate of 45%.
- The annual allowance charge where the scheme pays the member's charge
- The authorised surplus payments charge. A 35% tax charge is payable if the scheme pays surplus scheme funds to its employer
- The de-registration charge. A tax charge of 40% of the value of pension scheme assets is payable if HMRC removes the tax registration of the pension scheme
- Overseas transfer charge. A tax charge of 25% applies on taxable overseas transfers made from 9 March 2017.

(Relevant section of the manual is Part 5 Chapter 3.8)

3. **Explain the general accounting principles and how they apply for pension fund accounts.**

10 marks

Answer should cover:

Four concepts:

- Going concern – assuming to continue for foreseeable future
- Consistency – consistency of treatment of like items and from one period to the next
- Accrual – revenue and expenditure recognised when earned or incurred
- Prudence – allowances made for uncertain liabilities but not uncertain gains

Applied for pension fund accounts:

- Going concern – scheme assumed to continue and not undergoing a wind-up
- Consistency – no particular exceptions for pension schemes
- Accrual – straightforward for DC
- Prudence – debated for DB, valuation of assets; with DC problems around future liabilities do not exist

(Relevant section of the manual is Part 5 Chapter 2.1.3)



4. **List the various records that must be retained by pension schemes.**

5 marks

Answer should cover:

- Any monies received by or owing to the scheme
- Any investments or assets held by the scheme
- Any payments made by the scheme
- Any contracts to purchase a lifetime annuity in respect of a member of the scheme
- The administration of the scheme

(Relevant section of the manual is Part 5 Chapter 1.4)

5. **Outline the various pension arrangements that SORP covers.**

5 marks

Answer should cover:

SORP covers most pension arrangements including:

- Occupational DB and DC schemes
- Fully insured schemes
- Earmarked schemes
- Employer financed benefit schemes
- Schemes in wind up
- Overseas schemes
- Trust-based stakeholder schemes

(Relevant section of the manual is Part 5 Chapter 2.1.2)



6. List the various lump sum death benefits and how they are taxed (if applicable) if the member died
- Before age 75
 - On or after age 75.

10 marks

Answer should cover:

Type of death benefit	Before age 75	Age 75 or over
Defined benefits lump sum	Payment is tax-free unless the member has insufficient LTA or it is paid outside the two-year limit	Payment is taxed as income through pay as you earn
Uncrystallised funds lump sum	Payment is tax-free unless the member has insufficient LTA or it is paid outside the two-year limit	Payment is taxed as income through pay as you earn
Pension protection lump sum	Payment is tax-free	Payment is taxed as income through pay as you earn
Trivial commutation lump sum	Payment is taxed as income through pay as you earn	Payment is taxed as income through pay as you earn
Drawdown pension fund lump sum	Payment is tax-free unless it is paid outside the two-year limit	Payment is taxed as income through pay as you earn
Flexi-access drawdown fund lump sum	Payment is tax-free unless it is paid outside the two-year limit	Payment is taxed as income through pay as you earn
Annuity protection lump sum	Payment is tax-free	Payment is taxed as income through pay as you earn
Winding up lump sum	Payment is taxed as income through pay as you earn	Payment is taxed as income through pay as you earn
Charity lump sum	Payment is tax-free	Payment is tax-free
Life cover lump sum	Payment is tax-free	Payment is tax-free

The 45% tax charge will continue to apply to taxable lump sum death benefits where the recipient is for example, a trust or a company and so does not have a marginal rate of income tax.

(Relevant section of the manual is Part 5 Chapter 3.6.2)