Defined Benefit Arrangements

Assignment 2

*(Part 3 – Taxation and Governance of Defined Benefit Schemes)*

*Recommended Time: 3 hours*

1. **Outline how members are taxed on the authorised payments made from the scheme. In what way is this different to the taxation of other authorised payments?**

**20 marks**

Relevant section of the manual is Part 3 Chapters 1.4.1 and 1.4.2.

Format: descriptive, in distinct paragraphs/sections

Answer should cover:

* PAYE – types of payments and rate of tax charged:
  + Pensions
  + Trivial commutations
  + Lump sum death benefits
  + Serious ill-health lump sums
  + UFPLS
* Tax charged on scheme administrator – types of payments and rates of tax charged:
  + Refunds
  + Benefits transferred to a QROPS subject to the overseas tax charge
  + Benefits transferred to a QROPS where the transfer value exceeds the member’s LTA
  + Taxable lump sum death benefits not paid to an individual
  + Accounting for Tax return

1. **In your capacity as an appointed trustee adviser, the trustees have asked you to provide advice on how they can manage risk. Write a paper for the trustee, advising why risk management is necessary and outlining the carious steps in the risk management process.**

**20 marks**

Relevant section of the manual is Part 3 Chapter 2.5.6.

Format: formal report, introduction, key information, summary/conclusion, recommendation

Answer should cover:

* Why risk management is necessary
* Regulatory guidance
* Brief description of the 7 steps in a risk management process

1. **What are the key principles of good governance?**

**5 marks**

Relevant section of the manual is Part 3 Chapter 2.5.

Format: list

Answer should cover:

* Professional/motivated trustee board
* Appropriate policies
* Transparent accountability
* Regular reviews
* Formal information flows and communication channels

1. **You are an in-house Pensions Manager and Secretary to the Trustees of the Company’s pension scheme. One of the member nominated trustees has resigned. Briefly outline the considerations necessary when appointing a new trustee.**

**10 marks**

Relevant section of the manual is Part 3 Chapter 2.5.1.

Format: descriptive

Answer should cover:

* Legal requirement – one third member nominated
* Effective process to identify and appoint
* Selection process
* Standards of suitability
* Collective skills of trustee board – any gaps/avoid duplication?
* Consideration of Independent trustee

1. **The Company is concerned that its higher earning employees are at risk of incurring an annual Allowance Charge. Prepare a letter to the high earners explaining how the Annual Allowance operates and how the Tapered Annual Allowance could impact them from a taxation perspective.**

**20 marks**

Relevant section of the manual is Part 3 Chapters 1.3.1 and 1.3.2.

Format: letter, formal

Answer should cover:

* Finance Act 2004
* What is the AA and the threshold
* AA has reduced over time
* Carry forward
* Tapered AA introduced April 2015
* Income and adjusted income and the respective thresholds
* A simple worked example of a tapered AA calculation
* Money Purchase Annual Allowance

1. **You are a Third Party Administrator. Your client has asked for information about the requirements of a Scheme Administrator in relation to the overseas transfer charge when a member requests a transfer to a qualifying recognised overseas pension scheme. Write a short paper to send to your client.**

**20 marks**

Relevant section of the manual is Part 3 Chapter 1.3.8.

Format: formal, short report, short introduction and conclusion, 3 main headings

Answer should cover:

* Overseas transfer charge and tax rate
* Information to be provided to member within 90 days of the transfer date
* Required information if overseas tax charge applies
* Required information if overseas tax charge does not apply
* Required information if overseas tax charge is repaid to scheme administrator

1. **Give a brief summary on the legal requirements of Trustee Knowledge and Understanding**

**5 marks**

Relevant section of the manual is Part 3 Chapter 2.4.1.

Format: descriptive

Answer should cover:

* Pensions Act 2004
* Knowledge and Understanding
* Conversance with scheme documents