

1st March 2008

INCOME TAX CHANGES AFFECTING YOUR PENSION CONTRIBUTION

From 6th April 2008 the basic rate of Income Tax will reduce from 22% to 20% and the 10% Income Tax rate will no longer apply.

This change has implications to any Pension Scheme Member who is contributing into a Company Pension Plan. All contributions made by employees benefit from basic rate tax relief through the Pay As You Earn system. Your contribution is deducted net of basic rate tax from your net pay before it is forwarded to the insurance company for investment.

As the basic rate of Income Tax is reducing by 2% the tax relief you receive on your contributions into the pension scheme will reduce by 2%. This will have the impact of increasing your contributions slightly from the 6th April 2008 onwards.

I set out below an example of how the contribution will change for an employee whose contribution before tax relief is £50 per month.

Example contribution based on current 22% basic rate tax band

Contribution £50 basic rate tax 22% = £39 deducted from net take home pay

Once the contribution of £39 is received by the pension company tax relief of £11 is added so that £50 is invested.

Example Future contribution based on 20% basic rate tax

Contribution £50 less basic rate tax 20% = £40 deducted from net take home pay

Once the contribution of £40 is received by the pension company tax relief of £10 is added so £50 is invested.

For higher rate taxpayers the difference between basic rate tax and higher rate tax is reclaimed, as is currently the case through the self-assessment system.

If any Pension Scheme Member has any queries regarding the changes in tax relief and how they affect your pension then please contact:

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