



How PAYE is applied on a pension triviality payment

The following is an example of the tax calculation deducted from a typical payment made under the triviality rules for a fund value of £17,650.00:

Breakdown of Pension Triviality Payment Amount & *PAYE Tax deduction	
Fund Value:	£17,650.00
25% Tax-free Amount:	£ 4,412.50
#Taxable Amount:	£13,237.50
#*Tax Deducted:	£ 4,475.63
Net Amount:	£ 8,761.87
Total Payment:	£13,174.37

#These figures would appear on the P45 (see example)

* This is calculated under the Pay as you earn (PAYE) system using the emergency tax code month 1 basis as required under HM Revenue & Customs (HMRC) rules.

The tax calculation

	Taxable Amount	Tax Rate	Tax Due
Free pay ¹	£ 539.58	0.00%	£ 0.00
Amount at basic rate ²	£3,116.67	20.00%	£ 623.33
Amount at higher rate ³	£9,383.25	40.00%	£3,753.30
Amount at additional rate ⁴	£ 198.00	50.00%	£ 99.00
Total tax due on	£13,237.50		£4,475.63
Net Amount Payable: £8,761.87 (£13,237.50 - £4,475.63)			

Note: Tax Rates & Allowance used are applicable for Tax year 2010-11

¹ 2010/11 Personal Allowance of £6,475 ÷ 12 months

² 2010/11 Amount chargeable to basic rate tax between £0 and £37,400 ÷ 12 months

³ 2010/11 Amount chargeable to higher rate tax between £37,401 and £150,000 ÷ 12 months

⁴ 2010/11 Amount chargeable to additional rate tax above £150,001 ÷ 12 months

Standard HMRC roundings may be applied.

PAYE emergency tax code basis means you are assumed to have the emergency tax code for that tax year for this payment. The month one basis means that all of the taxable amount is deemed to have been received as earnings in one month. The example above shows you could pay 40% tax on most of the payment and, in some cases, up to 50% tax on part of the payment. But if this means you have paid too much tax, you can reclaim this from HMRC (see below).

Tax advice on trivial commutation payments

If you take trivial commutation we will send you a P45 tax form showing the taxable amount and the tax deducted. Please note that the taxable amount does not include the 25% tax free portion. The tax may not be the right amount due, when all of your income for the year is taken into account.

HMRC will check whether you have paid the correct amount of tax after the 5 April, and if not, they will contact you. If you think you have paid too much tax you can ask them for a tax refund now - you do not have to wait for the end of the tax year.

Call your usual HM Revenue & Customs office and ask for form P53A. You can find the numbers on the "contact us" pages of the HMRC website at www.hmrc.gov.uk, or in the phone book under HM Revenue & Customs, or Inland Revenue in older editions. It helps if you have your National Insurance number when you call.

