



How PAYE (Pay As You Earn) income tax is applied on a pension triviality lump sum payment

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

Breakdown of Pension Triviality Payment Amount & *PAYE Tax deduction	
Fund Value of the Plan:	£17,650.00
25% Tax-free amount:	£ 4,412.50
# 75% Taxable amount:	£13,237.50 ^A
#*Tax deducted:	£ 4,475.63 ^B
Net amount:	£ 8,761.87 ^C
Total final Payment :	£13,174.37

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

#These figures would appear on the P45 (see table below showing how the tax is worked out)

The PAYE income tax calculations

	Taxable Amount	Tax Rate	Tax Due
Tax 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 ^A		£4,475.63 ^B
Net Amount Payable:	£ 8,761.87 ^C	(£13,237.50 - £4,475.63)	

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

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

² 2010/11 Amount chargeable to basic rate tax at 20% is £37,400 (having allowed for tax free personal allowance) ÷ 12 months

³ 2010/11 Amount chargeable to higher rate tax at 40% (between £37,401 and £150,000) is £112,599 ÷ 12 months

⁴ 2010/11 Amount chargeable to additional rate tax at 50% above £150,001 ÷ 12 months

⁵ 2010/11 Emergency Tax Code for 2010/11 used is 647L

Standard HMRC roundings may be applied.

Tax treatment of trivial commutation lump sum payments

If you take trivial commutation we will send you a P45 tax form showing the taxable amount and the tax deducted, these details are also forwarded to HMRC. Please note that the 25% tax free cash amount is not included.

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. Therefore, the tax amount deducted may not be the right amount due, when all of your income for the year is taken into account.

If you would like advice on this then we recommend that you contact your financial adviser or tax office for help. Please note you may have to pay for this.

HMRC will check whether you have paid the correct amount of tax after 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.

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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.



1 Employer PAYE reference
Office number Reference number
671 / NZ86349

2 Employee's National Insurance number
AB 123456A

3 Title - enter MR, MRS, MISS, MS or other title
MR
Surname or family name
EXAMPLE
First or given name(s)
FRED

4 Leaving date DD MM YYYY
01 07 2010

8 This employment pay and tax. If no entry here, the amounts are those shown at box 7.
Total pay in this employment
£ 13237.50
Total tax in this employment
£ 4475.63

9 Works number/Payroll number and Department or branch (if any)
P011223344

10 Gender. Enter 'X' in the appropriate box
Male Female

11 Date of birth DD MM YYYY
01 01 1950

5 Student Loan deductions
 Student Loan deductions to continue

6 Tax Code at leaving date
647L
If week 1 or month 1 applies, enter 'X' in the box below.
Week 1 / Month 1

7 Last entries on P11 Deductions Working Sheet.
Complete only if Tax Code is cumulative. If there is an 'X' at box 6 there will be no entries here.
Week number Month number
Total pay to date
£
Total tax to date
£

12 Employee's private address
123 ABC AVENUE
GREAT YARMOUTH
NORFOLK
Postcode
NR11 1AB

13 I certify that the details entered in items 1 to 11 on this form are correct.
Employer name and address
WINDSOR LIFE ASSURANCE Co. LTD
WINDSOR HOUSE
IRONMASTERS WAY
TELFORD CENTRE, TELFORD
Postcode
TF3 4NB
Date DD MM YYYY
20 07 2010

To the employee

The P45 is in three parts. Please keep this part (Part 1A) safe. Copies are not available. You might need the information in Part 1A to fill in a Tax Return if you are sent one. Please read the notes in Part 2 that accompany Part 1A. The notes give some important information about what you should do next and what you should do with Parts 2 and 3 of this form.

Tax credits

Tax credits are flexible. They adapt to changes in your life, such as leaving a job. If you need to let us know about a change in your income, phone 0845 300 3900.

To the new employer

If your new employer gives you this Part 1A, please return it to them. Deal with Parts 2 and 3 as normal.