



# Employer Pensions Notice

## EPN 205

### Changes to the basic rate of income tax

### Subsequent effect on partnership pension accounts and designated stakeholder members.

**Audience** This Notice will be of particular interest to:

- **HR Managers and staff who have responsibility for the administration of the partnership pension account and the stakeholder arrangement; and**
- **Payroll Managers and staff who handle payments to the money purchase providers.**

**Action** HR Managers and staff are asked to:

- **Ensure your payroll provider increases any employees contribution to partnership and stakeholder arrangements to reflect the lower tax rate from 6 April 2008;**
- **Liaise with Payroll Managers to ensure that all employee and employer contributions for March 2008 can be paid over to the money purchase providers by 4 April 2008; and**
- **Issue the attached office notice.**

**Timing** See bullet points 1 and 2 above

1. From the 6 April 2008, the basic rate of income tax will reduce from 22% to 20%. This will impact on the tax relief on employee pension payments for those who contribute to a partnership pension account or to the designated stakeholder arrangements through the payroll.



2. Employee contributions for partnership and stakeholder arrangements are calculated after deduction of basic rate tax, (regardless of the tax status of the employee) and are deducted from the employee's net pay. The provider then claims basic rate tax relief from HM Revenue and Customs and credits it to the employee's pension fund; higher rate tax payers claim their additional tax relief via their annual tax return.
3. To ensure employees maintain the same level of payment to their partnership and stakeholder arrangements following the reduction in basic rate tax employee's contributions must be increase to reflect the lower rate tax rate from 6 April 2008.
4. For example, an employee currently pays a percentage of salary to their partnership account which equates to £100 per month. Of that, £78 is deducted from their salary and paid over to the provider together with the employer contribution. The other £22 is claimed back from HMRC by the provider. In order to keep the employee's gross contribution at the same level from 6 April 2008, when the basic tax rate reduces, the employee's net contribution should increase by £2 to £80. The provider will then claim back £20; the employee's total investment will remain at £100.
5. You therefore need to ensure:-
  - (a) your payroll provider increases any employees contribution to partnership and stakeholder arrangements to reflect the lower rate tax rate from 6 April 2008
  - (b) all employee contributions for the month ending 31 March 2008 are paid over to the providers by 4 April 2008 so the provider can claim back the basic rate of 22% before the basic rate reduces.

Any payment received after this date will mean a shortfall in the amount of money applied to the member's investment and it will be for the employer to ensure any loss to the employee is made good.

- 6 To ensure members are aware of the change and the impact on their personal contributions please issue the attached office notice.

**Contacts** Enquiries about content, distribution or to receive in a different format

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You can find electronic copies of the EPG, all current EPNs and forms on our website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk) in the Guidance for employers section.

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