

# **SEVERANCE INFORMATION GUIDANCE NOTE**





# SEVERANCE INFORMATION EMPLOYEE GUIDANCE NOTES

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## 1. INTRODUCTION

- 1.1 This document is issued for guidance only and should not be relied upon for any other purpose. It informs you of the component elements of the various financial options which may be available to you in a redundancy situation. For further enquiries, please contact your Service HR Team. A document containing an explanation of the meaning of terms used in this document is attached as Appendix 1.

## 2. BENEFITS

- 2.1 The financial benefits you will receive if you leave the employment of the Council on grounds of redundancy will depend upon your age, service, remuneration and whether or not you are a member of the Strathclyde Pension Fund (referred to as the Pension Scheme) and when you joined the Pension Scheme.
- 2.2 If you were a member of the Pension Scheme on 5 April 2006 and you are retired on the grounds of redundancy then you will be entitled to receive your pension benefits from age 50. This increases to age 55 if you joined the Pension Scheme on or after 6 April 2006. For the purpose of this guidance reference will be made to age 50 and above but for certain individuals age 55 may be the qualifying age for access to pension benefits.
- 2.3 For ease of reference, the range of entitlements has been summarised into options A, B, or C. These are:

Option A – redundancy compensation payment only

Option B – redundancy compensation payment and pension benefits

Option C – statutory redundancy payment and enhanced pension benefits i.e. added years

- If you are aged under 50 and have two or more years' service only Option A will apply.
- If you are aged over 50, have two or more years' service and are not a member of the Pension scheme, only Option A will apply.
- If you are aged over 50, have two or more years' service and are a member of the Pension Scheme, you may be entitled to options B or C, depending upon your Pension Scheme membership and individual circumstances.

"Options Available to Employees", attached at Appendix 2, shows summary benefits available under each option and for each age group of employee.

More details of the benefits payable under each option, and the methods of calculation, are detailed below at sections 4, 5 and 6. Tariffs 1 and 2, attached as Appendices 3 and 4, can be used as 'ready reckoners' to check statutory redundancy or redundancy compensation (incorporating statutory redundancy) entitlements. **Please refer to Appendix 2 to identify the options available to you, in your circumstances, before proceeding to the appropriate section(s), below.**

**You may only choose one option.**

- 2.4 Payments are based on your weekly wage. If you work 35 hours per week, you are contracted to work 1820 hours each year (35 x 52 (weeks in the year) = 1820 hours.) Your weekly wage is calculated thus:  $35/1820 \times \text{annual salary}$ . For example the weekly wage for an employee working 35 hours per week with a salary of £18,000 is:
- $$35/1820 \times £18,000 = £346.15$$

If you are contracted to work for 37 hours per week, your annual hours are 1,924 (i.e. 37 x 52) For example, the weekly wage for an employee working 37 hours per week With a salary of £18,000 is:

$$37/1924 \times £18,000 = £346.15$$

If you are a part-time employee, the calculation is based on your part-time hours and pro-rated salary. For example, if you work 17.5 hours per week, and earn £9,000 your weekly wage is:

$$17.5/910 \times £9,000 = £173.07$$

### 3. EMPLOYEES WITH LESS THAN TWO YEARS' SERVICE

- 3.1 If you have less than two years' service you are not entitled to a redundancy payment. If you are a member of the Pension Scheme you are entitled to a refund of your pension contributions. These will be subject to income tax and national insurance deductions. You can also transfer your pension rights to another employer's pension scheme or you can delay your decision until you either re-join a Local Government Pension Scheme, join a new pension scheme, or want to take a refund of contributions.

### 4. EMPLOYEES WITH TWO YEARS' SERVICE OR MORE, AGED UNDER 50/55, AND IN THE PENSION SCHEME, AND EMPLOYEES NOT IN THE PENSION SCHEME

#### 4.1.1 OPTION A

If you have two or more years' service you will be entitled to an enhanced redundancy compensation payment only, calculated in accordance with Appendix 4, Tariff 2, and which will **include** any statutory redundancy payment to which you are entitled.

The benefits are expressed as a prescribed number of weeks' pay, dependent upon your age and service. Appendix 4, Tariff 2 shows the number of weeks payable, based on completed years of service. **Only completed years of service can be used in calculating redundancy compensation payments.** To confirm the number of weeks' pay, to which you are entitled, line up the column of completed years of service with your age at your last birthday. This will be multiplied by your weekly pay to calculate your redundancy compensation payment.

#### 4.1.2 Members of the Pension Scheme

If you are under 50 or 55 (refer to 2.2) and you leave the Council on the grounds of redundancy you will have no entitlement to receive pension benefits. Any benefits you have accumulated by way of contributions to the Pension Scheme will be deferred (Appendix 1, Paragraph 5 – Deferred Benefits). You are not entitled to receive a refund of your pension contributions. You can also transfer your pension rights to another employer's pension scheme.

#### 4.1.3 Example

As an example, an employee aged 37 who earns £365.40 per week and has 5 years' continuous service within local government would receive the following provisional benefits under Option A, calculated in accordance with Appendix 4, Tariff 2.

#### **Redundancy Compensation Payment**

Weekly Pay (1):	£365.40
Continuous service:	5
Calculator (2):	10

Redundancy compensation payment (1x2):

£3,654.00
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#### 4.1.4 Employees not in the Pension Scheme

If you are not in the Pension Scheme you will have no entitlement to receive pension benefits. Your redundancy compensation payment will be calculated in accordance with Appendix 4, Tariff 2. Please see the example in paragraph 4.1.3, above.

## 5. EMPLOYEES WITH MORE THAN TWO YEARS SERVICE, AGED OVER 50/55 AND IN THE PENSION SCHEME

### 5.1 GENERAL INFORMATION

If you are aged 50 or 55 (refer to 2.2) and above with 2 or more years' service and a member of the Pension Scheme you may have a choice of redundancy options **B** or **C**, as detailed below, depending on your circumstances.

Employees who are members of the Pension Scheme will be entitled to benefits as follows:

#### **Membership of between 2 and up to 5 years**

You will receive immediate payment of pension benefits. The benefits will not be enhanced. In addition, you will receive an enhanced redundancy compensation payment, calculated in accordance with Appendix 4, Tariff 2. (**Option B**)

#### **Membership of 5 years or more than 5 years**

If you are age 50/55 and over with **at least** 5 years' Pension Scheme membership, or more than 5 years, you will receive immediate payment of your pension benefits. These may be enhanced by up to  $6\frac{2}{3}$  or 10 years, depending on which option is chosen (See Appendix 1, Paragraph 4 – Enhanced Benefits). If you take enhanced pension benefits, you will receive a **statutory** redundancy payment, calculated in accordance with Appendix 3, Tariff 1. (**Option C**)

However, as you are receiving a statutory redundancy payment (Appendix 3, Tariff 1), as well as being credited with an additional period of pensionable service, your pension benefits **will be abated** (reduced), usually by an amount **equivalent** to the redundancy payment, if you receive more than  $6\frac{2}{3}$  added years. By choosing to receive more than  $6\frac{2}{3}$  added years, you will receive a statutory redundancy payment but your pension lump sum and, possibly, your annual pension, will be reduced to reflect this redundancy payment.

If you opt not to take enhanced pension benefits then you will receive an **enhanced** redundancy compensation payment, calculated in accordance with Appendix 4, Tariff 2. (**Option B**)

#### 5.1.1 Pension benefits will be calculated as follows:

Membership of the Pension Scheme up to 31 March 2009:-

Annual Pension =  $1/80^{\text{th}}$  x Final Pensionable Pay x Pensionable Service up to 31 March 2009

Tax free lump sum =  $3/80^{\text{th}}$  x Final Pensionable Pay x Pensionable Service up to 31 March 2009

Membership of the Scheme from 1 April 2009 to 31 March 2015

Annual Pension =  $1/60^{\text{th}}$  x Final Pensionable Pay x Pensionable Service from 1 April 2009 up to 31 March 2015

Lump sum = only by giving up some pension i.e. £1 of pension equals £12 lump sum (limited to a maximum of 25% of the total value of the entire retirement benefit)

Membership of the Scheme from 1 April 2015

Annual Pension =  $1/49^{\text{th}}$  x Career Average Earnings x Pensionable Service from 1 April 2015 to date of termination

Lump sum = only by giving up some pension i.e. £1 of pension equals £12 lump sum (limited to a maximum of 25% of the total value of the entire retirement benefit)

## 5.2 Examples of payments

### 5.2.1 OPTION B

An employee aged 56 who earns £335.25 per week, has 4 years' continuous service within local government and has been a member of the Pension Scheme for 4 years would receive the following provisional benefits under Option B.

#### Redundancy Compensation Payment

Weekly pay (1):	£335.25
Continuous service:	4
Calculator (2):	20

Redundancy payment (1x2): £6,705

#### Pension Benefits

2 years' membership of the Pension Scheme up to 31 March 2015  
Pension =  $2 \times \frac{1}{60} \times £17,433 = £581.10$

2 years' membership of the Pension Scheme from 1 April 2015  
Pension =  $2/49 \times £17,433 = £711.55$

Total pension = £1,292.65

Lump sum - only by giving up some pension i.e. £1 of pension equals £12 lump sum (limited to a maximum of 25% of the total value of the entire retirement benefit)

### 5.2.2 OPTION C

An employee aged 52 who earns £349.50 per week, has 13 years continuous service within local government and has been a member of the Pension Scheme for 13 years would receive the following provisional benefits under Option C.

#### Statutory Redundancy Payment

Weekly pay (1):	£349.50
Continuous service:	13
Calculator (2):	18.5

Statutory redundancy payment (1x2): £6,465.75

In this example you would receive a statutory redundancy payment of **£6,465.75** from the Council. However, if you opted to take more than  $6\frac{2}{3}$  added years, an amount equivalent to this would be deducted from the pension lump sum.

#### Benefits Based on $6\frac{2}{3}$ Added Years

5 years membership of the Pension Scheme up to 31 March 2009:  
Pension =  $5 \times \frac{1}{80} \times £18,174$  (annual pensionable salary) = £1,135.87  
Lump sum =  $5 \times \frac{3}{80} \times £18,174 = £3,407.62$

6 years member ship from 1 April 2009 to 31 March 2015  
Pension =  $6 \times \frac{1}{60} \times £18,174 = £1,817.40$

2 years membership from 1 April 2015  
Pension =  $2 \times \frac{49}{80} \times £18,174 = £741.80$

Enhanced pension =  $6\frac{2}{3}$  years x  $1/80^{\text{th}}$  x £18,174 = £1,515.26  
Enhanced lump sum =  $6\frac{2}{3}$  years x  $3/80^{\text{th}}$  x £18,174 = £4,545.77

Total Pension = £5,210.67  
Lump Sum = £4,853.39

Redundancy = £6,465.75

### **Benefits Based on 10 Added Years**

5 years' membership of the Pension Scheme up to 31 March 2009:  
Pension =  $5 \times 1/80^{\text{th}}$  x £18,174 (annual pensionable salary) = £1,135.87  
Lump sum =  $5 \times 3/80^{\text{th}}$  x £18,174 = £3,407.62

6 years' membership from 1 April 2009 to 31 March 2015  
Pension =  $6 \times 1/60^{\text{th}}$  x £18,174 = £1,817.40

2 years' membership from 1 April 2015  
Pension =  $2 \times 49^{\text{th}}$  x £18,174 = £741.80

Enhanced pension = 10 years x  $1/80^{\text{th}}$  x £18,174 = £2,271.75  
Enhanced lump sum = 10 years x  $3/80^{\text{th}}$  x £18,174 = £6,815.25

Total Pension = £5,966.82  
Lump Sum = £10,222.87 less redundancy payment of £6,465.75 = £3,757.12

Redundancy = £6,465.75

## **6. GENERAL INFORMATION**

### **6.1 Legislation**

The Employment Rights Act 1996,  
The Redundancy Payments (Continuity of Employment in Local Government, etc.)  
(Modification) Order 1999,  
The Local Government (Discretionary Payments and Injury Benefits) (Scotland)  
Regulations 1998 as amended and  
The Employment Equality (Age) Regulations 2006.

### **6.2 Continuous Service for the Calculation of the Entitlement to a Redundancy Payment**

Whilst you may have an entitlement to count pensionable periods of service in the calculation of a redundancy payment, your period of continuous service for the statutory employment right of receiving a redundancy payment accrues following the completion of 2 years' continuous service with North Lanarkshire Council.

### **6.3 What Counts as Service**

#### **For Members of the Pension Scheme**

All pensionable service, which counts towards calculating pension benefits under the Pension Scheme, including that transferred in from another scheme.

#### **For all other Employees**

This is continuous local government service as determined in The Redundancy Payments (Continuity of Employment in Local Government, etc.) (Modification) Order 1999 and those organisations recognised in the Council's collective agreement. Service is considered to be continuous if any break is no longer than one month and one day.



### **For Part Time Employees**

Service is the actual length of time the individual has been employed, e.g. a part timer working 17.5 hours per week for 5 years will have pensionable service of 5 years. (However pension will be calculated on a full time equivalent basis i.e. salary rounded up to the full time equivalent salary and the service rounded down to the full time equivalent.)

#### **6.4 Payments Liabile to Taxation**

- a) Your annual pension may be liable for taxation as it is deemed a form of income. Your actual tax liability will depend on your personal circumstances.
- b) If the total of the redundancy or compensation payment and pension added years lump sum amounts to more than £30,000, the excess of £30,000 is liable for tax.
- c) If, in exceptional circumstances, you receive payment in lieu of working your period of notice, this payment would be liable for taxation.

For further information, please refer to Appendix 5

#### **6.5 Payment of Benefits**

Any statutory redundancy payment or redundancy compensation payment to which you are entitled will be paid to you on or around the date you leave the Council. This will include the lump sum element of any compensatory added years but not the pension.

The Strathclyde Pension Fund Office will process the payment of the pension lump sum and the monthly pension in accordance with their internal procedures and timescales.

#### **6.6 Calculation of a Week's Pay**

A normal week's pay shall be calculated in accordance with Part XIV, Chapter II, paragraphs 220 - 229 of the Employment Rights Act 1996. In general, this is the gross **weekly** contractual wage. (Examples of calculating a week's pay are given in paragraph 2.4)

Contractual pay is deemed to be your basic wage/salary, and contractual elements e.g. contractual overtime. Non contractual payments such as car allowance, overtime (no matter how regular) excess travel expenses, higher duties payments etc will **not** be included.

#### **6.7 Service**

Because of the different definitions of service, the service used to calculate your redundancy/compensation benefits may be different from that used to calculate your pension benefits.

#### **6.8 Notice Period**

You will be required to work your period of notice and only in exceptional circumstances will you receive payment in lieu.

#### **6.9 Annual Leave**

You will be granted, before leaving the Council, the proportion of annual leave due for the actual service which you have given during the year. You should take this leave prior to leaving, except in unavoidable circumstances where your Service recommends payment of an allowance in lieu of outstanding holidays.

#### **6.10 Pension Scheme Membership**

You can obtain further advice on your Pension Scheme membership, the options available to you and your personal circumstances by contacting:

- Strathclyde Pension Fund Office (0345 890 8999)

## PENSION SCHEME – MEANING OF TERMS

If you were a member of the Pension Scheme on 5 April 2006 and leave the employment of the Council on the grounds of redundancy you will qualify for immediate payment of your pension and lump sum at age 50 provided you have at least 2 years' Qualifying Service. If you became a member of the Pension Scheme on or after 6 April 2006 you will qualify for immediate payment of your pension and lump sum benefits at age 55 provided you have at least 2 years' Qualifying Service. Clearly, pension benefits will only be available if you are a member of the Pension Scheme and pay contributions from your salary.

### 1 Qualifying Service

This is service which is taken into account in deciding whether or not you are entitled to benefits from the Pension Scheme. It is normally the actual calendar length of service in which you have been a member of the Pension Scheme (or a previous pension arrangement if you transferred-in your rights), but it can also include service when you were not a scheme member e.g. part-time employees with service prior to 1 April 1986. Qualifying Service should not be confused with service used for calculation of your pension benefits (i.e. pensionable service - see 2 below).

### 2 Pensionable Service

This is the period of service used for the calculation of your pension benefits. It is usually the period during which you have paid contributions, plus any additional service transferred in from a previous Pension Scheme, or "bought" by means of extra contributions.

### 3 Pension Benefits

The Pension Scheme provides retirement benefits consisting of an **Annual Pension** and a **Tax Free Lump Sum**. These are calculated as follows: -

**For service up to and including 31 March 2009**

**Annual Pension**             $1/80 \times \text{Final Pensionable Pay} \times \text{Pensionable Service}$   
**Tax Free Lump Sum**     $3/80 \times \text{Final Pensionable Pay} \times \text{Pensionable Service}$

**For service from 1 April 2009**

**Annual Pension**             $1/60 \times \text{Final Pensionable Pay} \times \text{Pensionable Service}$   
 (option to give up pension for a lump sum limited to a maximum of 25% of the total value of the entire retirement benefit)

**For service from 1 April 2015**

**Annual Pension is calculated as 1/49 and based on career average earnings**

### 4 Enhanced Benefits

If you have at least 5 years' service, the Council will award you additional service that will be used in the calculation of your benefits. The maximum additional service that can be granted is the shortest of the following periods:

- 10 years\*
- actual pensionable service
- service to age 65, and
- service to achieve a total of 40 years

\* If your service is enhanced by more than  $6\frac{2}{3}$  years and you choose to receive a statutory redundancy payment under Option C, your pension lump sum will be abated to reflect your redundancy payment (see 5.2.2 above).

## **5 Deferred Benefits**

If you have more than 2 years' pensionable service in the Pension Scheme but are not eligible for payment of pension benefits at the date of leaving (for example because you are under 50 years of age) you do not lose your entitlement to these benefits. If you were a member of the Pension Scheme before 1 April 2009 deferred benefits may be payable at age 60, provided you are able to accrue 25 years Pension Scheme membership, in total, by adding together the actual Pension Scheme membership accrued to date of termination and the intervening period till age 60. If 25 years cannot be counted, your benefits will be held back until 25 years can be made up or age 65 occurs, whichever is the earlier. If you joined the Pension Scheme on or after 1 April 2009 you can only access your deferred benefits at age 65.

## OPTIONS AVAILABLE TO EMPLOYEES

	PAYMENT			PENSION BENEFITS						
	A	B	C	Statutory Redundancy (Appendix 3, Tariff 1)	Enhanced Compensation (incorporating statutory redundancy) (Appendix 4, Tariff 2)	Immediate Payment of Benefits	Deferred Payment of Benefits	Compensatory added years up to 6 <sup>2</sup> / <sub>3</sub>	Compensatory added years up to a max. of 10	Refund of Contributions
Less than 2 years service										√
Aged between 18 and 49 with 2 or more years' service	√				√		√			
Aged 50 and over with 2 or more years' service and not in the Pension Scheme	√				√					
Aged 50 (55) and over with between 2 and up to 5 years' Pension Scheme membership		√			√	√				
Aged 50 (55) and over with 5 years' or more Pension Scheme membership		√			√	√				
Aged 50 (55) and over with 5 years' or more Pension Scheme membership			√	√		√		√	√	

**Statutory Redundancy Payment Calculator for those Aged 50 and Over**

**Appendix 3 -  
Tariff 1**

**Completed years of Service**

	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Age																			
50	3	4½	6	7½	9	10½	12	13½	14½	15½	16½	17½	18½	19½	20½	21½	22½	23½	24½
51	3	4½	6	7½	9	10½	12	13½	15	16	17	18	19	20	21	22	23	24	25
52	3	4½	6	7½	9	10½	12	13½	15	16½	17½	18½	19½	20½	21½	22½	23½	24½	25½
53	3	4½	6	7½	9	10½	12	13½	15	16½	18	19	20	21	22	23	24	25	26
54	3	4½	6	7½	9	10½	12	13½	15	16½	18	19½	20½	21½	22½	23½	24½	25½	26½
55	3	4½	6	7½	9	10½	12	13½	15	16½	18	19½	21	22	23	24	25	26	27
56	3	4½	6	7½	9	10½	12	13½	15	16½	18	19½	21	22½	23½	24½	25½	26½	27½
57	3	4½	6	7½	9	10½	12	13½	15	16½	18	19½	21	22½	24	25	26	27	28
58	3	4½	6	7½	9	10½	12	13½	15	16½	18	19½	21	22½	24	25½	26½	27½	28½
59	3	4½	6	7½	9	10½	12	13½	15	16½	18	19½	21	22½	24	25½	27	28	29
60	3	4½	6	7½	9	10½	12	13½	15	16½	18	19½	21	22½	24	25½	27	28½	29½
61+	3	4½	6	7½	9	10½	12	13½	15	16½	18	19½	21	22½	24	25½	27	28½	30

**Note: To use the table read off your age and number of completed years of service. This will then show the number of weeks pay for redundancy payment.**



Compensation Payment Calculator

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Amendment Regulations 1998 & 2000

Appendix 4 -

Tariff 2 -

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Completed years of Service

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47												
Age																																																											
42		7	9	11	13	15	17	19	21	23	25	27	29	31	33	35	37	39	41	43	45	47	49	51	53	55																																	
43		10	12	14	16	18	20	22	24	26	28	30	32	34	36	38	40	42	44	46	48	50	52	54	56	58	60																																
44		10	15	17	19	21	23	25	27	29	31	33	35	37	39	41	43	45	47	49	51	53	55	57	59	61	63	65																															
45		10	15	20	22	24	26	28	30	32	34	36	38	40	42	44	46	48	50	52	54	56	58	60	62	64	66	66	66																														
46		10	15	20	25	27	29	31	33	35	37	39	41	43	45	47	49	51	53	55	57	59	61	63	65	66	66	66	66	66																													
47		10	15	20	25	30	32	35	37	39	41	43	45	47	49	51	53	55	57	59	61	63	65	66	66	66	66	66	66	66	66																												
48		10	15	20	25	30	35	37	39	41	43	45	47	49	51	53	55	57	59	61	63	65	66	66	66	66	66	66	66	66	66	66	66																										
49		10	15	20	25	30	35	40	42	44	46	48	50	52	54	56	58	60	62	64	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66				
50	10	15	20	25	30	35	40	45	47	49	51	53	55	57	59	61	63	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66		
51	10	15	20	25	30	35	40	45	50	52	54	56	58	60	62	64	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66		
52	10	15	20	25	30	35	40	45	50	55	57	59	61	63	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66		
53	10	15	20	25	30	35	40	45	50	55	60	62	64	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66		
54	10	15	20	25	30	35	40	45	50	55	60	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66		
55	10	15	20	25	30	35	40	45	50	55	60	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	
56	10	15	20	25	30	35	40	45	50	55	60	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	
57	10	15	20	25	30	35	40	45	50	55	60	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	
58	10	15	20	25	30	35	40	45	50	55	60	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	
59	10	15	20	25	30	35	40	45	50	55	60	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66
60	10	15	20	25	30	35	40	45	50	55	60	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66
61+	10	15	20	25	30	35	40	45	50	55	60	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66

**TAX CHANGES & EARLY RETIRALS**

Early retiral taken around the end/start of a tax year can provide some staff with tax planning opportunities which are advantageous for them. Whilst the Council can highlight the possibilities, the employees concerned should determine if they need professional advice to ensure that their own particular financial circumstances are considered.

With the tax changes being introduced reducing the limit of the Annual Allowance to £40,000, and the changes to the Life Time allowance there is opportunity for some employees to take advantage of their changing financial circumstances and the tax implications.

In particular employees whose current salary puts them in the 40% tax bracket but whose pension and income after retiral would place them in the 20% bracket could benefit by choosing an appropriate retiral date. The benefit relates to the tax due on the redundancy/Compensatory Added Years lump sum payments.

Such payments were previously made by Strathclyde Pension Fund (SPF). This was taxed at 'BR' (Basic Rate of 20%) since SPF did not have access to individual employee tax codes. This meant that HMRC would then need to collect any additional tax due from Higher Rate individuals through self assessment at a later date. With effect from 6 April 2011 Compensatory Added Years lump sum payments will be made by employers.

HMRC recently notified employers of a change in the taxation of such payments on retiral. When a payment has been made to an employee **after** Form P45 has been issued a new code 'OT' will replace the former 'BR' code. This means that an employee may be taxed at 40% if appropriate and depending on when you are paid and your circumstances moving forward you may be liable or indeed be owed a tax refund from HMRC. It is advised that you seek financial advice.

Detailed below is an example of the effect of the tax treatment and how it has changed:

**Retiral on 8 April**

Redundancy Payment	£40,000
Tax Free	<u>£30,000</u>
Taxable	<u>£10,000</u>

**Under 'OT'**

£3,116.67 @ 20%	=	£623.34
£6,883.33 @ 40%	=	<u>£2,753.33</u>
		£3,376.67 Tax deducted on Retiral

Tax due @ 20%: £10,000 x 20% = £2,000

Amount reclaimable from HMRC if employee is taxable for the year at 20% would be (£3,376.67 - £2,000) = £1,376.67.

At retiral employee receives	£36,623.33
At end of tax year employee reclaims	<u>£1,376.67</u>
	<u>£38,000.00</u>