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STATUTORY INSTRUMENTS

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**1994 No. 3009**

**INCOME TAX**

**The Retirement Benefits Schemes  
(Indexation of Earnings Cap) Order 1994**

*Made - - - - 29th November 1994*

The Treasury, in pursuance of section 590C(6) of the Income and Corporation Taxes Act 1988<sup>(1)</sup>, hereby make the following Order:

1. This Order may be cited as the Retirement Benefits Schemes (Indexation of Earnings Cap) Order 1994.
2. The figure specified in this Order, which is the figure found for the year of assessment 1995-96, for the purposes of section 590C of the Income and Corporation Taxes Act 1988, by virtue of subsections (4) and (5) of that section, is £78,600.

29th November 1994

*Timothy Kirkhope*  
*Tim Wood*  
Two of the Lords Commissioners of Her  
Majesty's Treasury

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<sup>(1)</sup> 1988 c. 1; section 590C was inserted by paragraph 4 of Schedule 6 to the Finance Act 1989 (c. 26) and amended by section 107(4) and (5) of the Finance Act 1993 (c. 34).

*Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.*

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## EXPLANATORY NOTE

*(This note is not part of the Order)*

Section 590C(1) of the Income and Corporation Taxes Act 1988 (“the Act”) provides that in arriving at an employee’s final remuneration for the purposes of section 590(3)(a) or (d) of the Act (conditions for approval of retirement benefit schemes), any excess over the permitted maximum figure (“the earnings cap”) for the year of assessment in which the employee’s participation in the scheme ceases shall be disregarded. Section 590C(3) fixed the earnings cap for the years of assessment 1988-89 and 1989-90 at £60,000.

Subsections (4) and (5) of section 590C of the Act provided, in their original form, for the earnings cap to be increased, for any subsequent year of assessment, in accordance with the percentage increase in the retail prices index for the December preceding that year of assessment over that for the previous December, rounded up to the nearest amount which is a multiple of £600. This resulted in the earnings cap being increased to £64,800, £71,400, £75,000 and £76,800 for the years of assessment 1990-91, 1991-92, 1992-93 and 1994-95 respectively. For the year of assessment 1993-94, section 106 of the Finance Act 1993 provided that the earnings cap should remain at £75,000.

For 1994-95 and subsequent years of assessment, section 107(4) and (5) of the Finance Act 1993 amended section 590C of the Act, providing, among other matters, for September to replace December as the base month for indexation purposes.

The “retail prices index” is defined in section 833(2) of the Act, as amended by paragraph 5 of Schedule 2 to the Transfer of Functions (Economic Statistics) Order 1989 (S.I.1989/992), as the “general index of retail prices (for all items) published by the Central Statistical Office of the Chancellor of the Exchequer”. The retail prices index for the month of September 1993 is 141.9 and for September 1994 145.0 (based on January 1987 as 100) (see Table 6.4 on page S56 of the November 1994 number of *Employment Gazette*, the official journal of the Department of Employment).

Section 590C(6) of the Act provides that the Treasury shall in the year of assessment 1989-90, and in each subsequent year of assessment, make an order by statutory instrument, specifying the earnings cap for the following year of assessment.

The earnings cap for the year of assessment 1995-96 specified by this Order is £78,600.

This figure is also the figure found as the permitted maximum or allowable maximum for 1995-96 for the purposes of the following sections of the Act:

- section 590B (maximum remuneration for the purposes of calculating the aggregate amount of pension and commuted pension in cases of associated employments and connected schemes);
- section 592 (maximum remuneration for the purposes of calculating amount deductible in respect of employee contributions to exempt approved schemes);
- section 594 (maximum remuneration for the purposes of calculating amount deductible in respect of a person’s contributions paid under relevant statutory schemes);
- section 599 (maximum final remuneration for the purposes of calculating amount of excess of commuted entire pension on which tax chargeable);
- section 640A (maximum net relevant earnings for the purposes of deductions from contributions under approved personal pension arrangements);

— section 646A (maximum net relevant earnings for such purposes in cases of associated employments);  
and for the purposes of paragraph 20 and, by paragraph 22, for the purposes of paragraph 21 of Schedule 6 to the Finance Act 1989 (rules of retirement benefit schemes approved before 27th July 1989).