

2005 No. 720

INCOME TAX

**The Retirement Benefit Schemes (Indexation of Earnings Cap)
Order 2005**

Made - - - -

16th March 2005

The Treasury, in exercise of the powers conferred upon them by section 590C(6) of the Income and Corporation Taxes Act 1988(a), make the following Order:

Citation

1. This Order may be cited as the Retirement Benefit Schemes (Indexation of Earnings Cap) Order 2005.

Permitted maximum for 2005-06

2. For the purposes of section 590C(1) of Income and Corporation Taxes Act 1988, the permitted maximum for the year of assessment 2005-06 is £105,600.

16th March 2005

Jim Murphy
Nick Ainger
Two of the Lords Commissioners of Her Majesty's Treasury

(a) 1988 c. 1. Section 590C was inserted by paragraph 4 of Schedule 6 to the Finance Act 1989 (c. 26), amended by section 107(4) and (5) of the Finance Act 1993 (c. 34) and prospectively repealed (from 6th April 2006) by Part 3 of Schedule 42 to the Finance Act 2004 (c. 12).

EXPLANATORY NOTE

(This note is not part of the Order)

Section 590C(1) of the Income and Corporation Taxes Act 1988 (c. 1: “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, any excess over the permitted maximum (“the earnings cap”) for the year of assessment in which the employee’s participation in the scheme ceases shall be disregarded.

The earnings cap is calculated in accordance with section 590C(2) to (5A) of the Act, as amended by section 107(4) and (5) of the Finance Act 1993. Section 590C(5) of the Act provides that if the retail prices index for the September preceding the year of assessment is higher than it was for the previous September, the earnings cap is calculated by increasing the previous year’s figure by the same percentage as the percentage increase in the retail prices index, and, if the amount is not a multiple of £600, rounding it up to the nearest amount which is a multiple of £600.

The retail prices index is defined in section 833(2) of the Act, as amended by paragraph 22 of Schedule 2 to the Transfer of Functions (Registration and Statistics) Order 1996 (S.I. 1996/273) as “the general index of retail prices (for all items) published by the Office for National Statistics”.

The retail prices index was 188.1 for September 2004, compared with 182.5 for September 2003. This represents an increase of 3.1%. Since applying that percentage to the previous year’s earnings cap would produce the figure of £105,162, which is not divisible by £600, the earnings cap is increased for the year 2005-06 to £105,600.

The limit imposed by the earnings cap will be replaced, for the year 2006-07 and subsequent years, by the lifetime allowance and the annual allowance limits contained in Part 4 of the Finance Act 2004 (see sections 218(1) and 228(1) of that Act).

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