

# Case study - Redundancy

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This case study is intended for information purposes only. Its contents are not to be used as legal, financial or tax advice. The tax treatment and tax benefits are based on our understanding of current tax and other legislation, and depend on a customer's individual circumstances. They may be subject to change in the future.

## As more people are being made redundant, many investors will be considering the options of what to do with their redundancy payment.

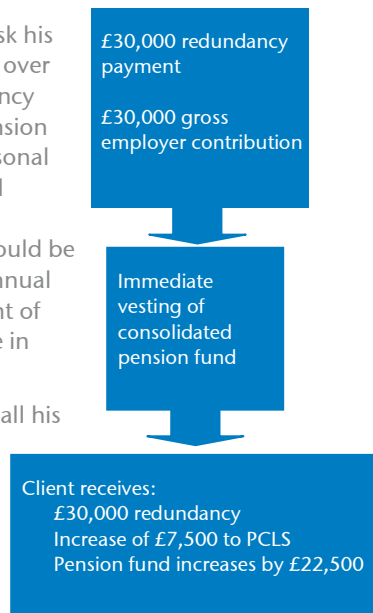
For those who receive payments in excess of the tax free amount, pension contributions can help make this payment tax efficient as well as help and plan for the future.

Geoff works in the city and has worked for the same firm for many years. He has a company pension scheme with a retirement age of 60. Now aged 55 he has been made redundant. His redundancy payment is £60,000 which is £30,000 in excess of the tax free allowance. As Geoff is a higher rate tax payer the net payment would be around £48,000. If Geoff wants to limit his tax liability and create the flexibility to take an income while he looks for more work, a pension can help him achieve this. As his total income is less than £130,000, his options are as follows:

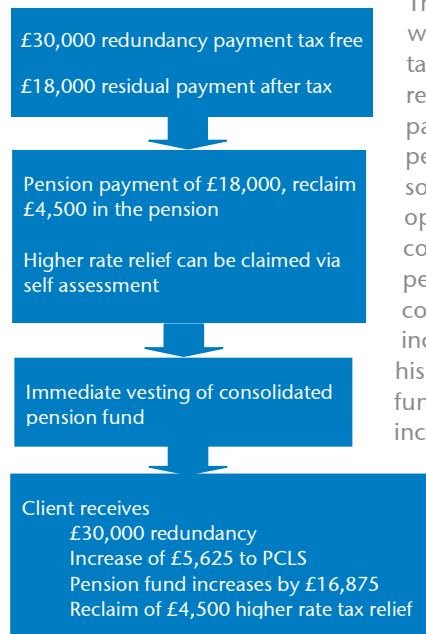
### Option 1

His first option would be to ask his employer to pay any amount over the £30,000 tax free redundancy threshold as an employer pension contribution directly to a personal pension. Although this would mean it is tied into a pension arrangement, no tax or NI should be payable if it falls within the annual allowance after taking account of any other contributions made in that tax year.

Geoff could then consolidate all his pensions into a SIPP; take his Pension Commencement Lump Sum (PCLS) and income as and when required. In this case this extra contribution would increase his PCLS entitlement by £7,500.



### Option 2



The second option would be to pay the taxed excess redundancy payment into a pension to recoup some of the tax. This option again, combined with pension consolidation can increase the value of his PCLS and residual fund available for income.

It is clear that the most immediate tax efficient option is the first option. However, the choice may well come down to what the ultimate priority is - more cash now or a bigger pension fund later.