

# ***TR 93/13 - Income tax: undeducted purchase price of pensions from the British National Insurance Scheme***



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## Taxation Ruling

### Income tax: undeducted purchase price of pensions from the British National Insurance Scheme

*This Ruling, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the **Taxation Administration Act 1953**, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Ruling is a public ruling and how it is binding on the Commissioner.*

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## What this Ruling is about

- Article 14 of the Australia/United Kingdom Double Tax Agreement provides for the taxation of pensions and annuities only in the recipient's country of residence. Therefore, pensions received under the British National Insurance Scheme by Australian residents are not taxed in the United Kingdom but must be included in the recipient's assessable income for Australian taxation purposes under section 27H of the *Income Tax Assessment Act 1936*.
- The taxable amount of these pensions can generally be reduced by the pension's undeducted purchase price, or UPP. Broadly, UPP comprises non-employer contributions made to purchase a pension which were not allowable as an Australian tax deduction and which, for contributions before 1 July 1983, did not give rise to a rebate of tax.
- This Ruling explains:
  - how the Commissioner will exercise his discretion under subsection 27H(3) to determine the deductible amount of a pension received under the Scheme (i.e. the amount by which the taxable amount of the pension is reduced each year);
  - the exact method, based on UPP, which can be used for calculating the deductible amount under subsection 27H(2); and
  - how to convert British to Australian currency.
- The Ruling applies to all pensions from the Scheme which are based on a person's contributions (contributory pensions).

Contributory pensions include Category A retirement pensions, Category B retirement pensions paid to a widow or widower, widowed mother's allowances and widow's pensions. The Ruling does not apply to Category C and Category D retirement pensions from the Scheme because these pensions are non-contributory and so have no UPP. Nor does it apply to Defence Force pensions, or other British pensions which are not received from the National Insurance Scheme.

5. Key terms used in this Ruling are defined in paragraph 27.

## **Ruling**

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### **(a) Deductible amount determined by the Commissioner**

6. The exact method for calculating UPP and the deductible amount of a contributory pension received under the Scheme is outlined in paragraphs 7 to 13. However, if the pension recipient chooses not to perform this calculation, for contributory pensions which do not fall within paragraph 11 the Commissioner will accept an alternative method, being a deductible amount of 8% of the annual amount of the pension (expressed in Australian currency). In this regard, it has been our experience that the deductible amount calculated using the exact method is invariably less than 8% of the pension received. If the pensioner chooses the alternative method, paragraphs 7 to 13 can be disregarded and the only further calculation necessary is the conversion of British to Australian currency (described at paragraphs 14 to 16).

### **(b) The exact method for calculating deductible amount**

7. If a person decides not to adopt the 8% exclusion, the deductible amount of a contributory pension received from the Scheme is calculated as explained below.

#### **(i) Deductible amount of a Category A pension**

8. The deductible amount of a Category A pension (explained in paragraph 27) is:

$$\frac{\text{UPP}}{\text{Relevant number}}$$

- **UPP** is the undeducted purchase price of the pension calculated according to the method described in paragraphs 12 and 13.

- **Relevant number** is the pensioner's life expectancy when the pension is first received (or, if the pensioner is married and the pension was first payable on or after 1 July 1983, the greater of the life expectancy of the pensioner and his or her spouse).

**(ii) Deductible amount of widowed mother's allowances, widow's pensions and Category B pensions**

9. Widowed mother's allowances, widow's pensions and Category B pensions paid to widows and widowers (explained in paragraph 27) which are paid on or after 1 July 1983 following the death of a spouse who was receiving a Category A pension have the same deductible amount as the Category A pension. If the spouse who died did not receive a Category A pension the deductible amount of the widow/er's pension is:

$$\frac{\text{UPP}}{\text{Relevant number}}$$

- **UPP** is the undeducted purchase price of the pension calculated by applying the method described in paragraphs 12 and 13 to the deceased spouse's contributions.
- **Relevant number** is the pensioner's life expectancy when the pension is first received.

10. If a single contribution record gives rise to a number of consecutive pensions, the deductible amount off-set annually against each pension is the amount of UPP divided by the relevant number ascertained when the first pension is received.

11. There is no deductible amount for a married woman's Category B pension paid to a wife while her husband receives a Category A pension, nor for a widowed mother's allowance, a widow's pension and a Category B pension paid to a widow/er before 1 July 1983.

**(iii) Undeducted purchase price**

12. The UPP of a contributory pension received under the Scheme is the sum of :

- all contributions by the pensioner (or, where relevant, the pensioner's spouse) which secured entitlement to the pension (these contributions are discussed in paragraph 13); and
- for Category A pensions first payable on or after 1 July 1983, contributions by a former spouse which are used to supplement the pensioner's own contribution record, provided those contributions have not already been included in the UPP of the

former spouse's pension (the British Department of Social Security can provide details of any contributions used to supplement a person's contribution record).

The following contributions do *not* form part of UPP:

- contributions by an employer (section 27A(5C));
- credited contributions (explained in paragraph 27), unless the credits are derived from contributions made to another country's national insurance scheme (the British Department of Social Security can provide details of these credited contributions); and
- for pensions payable before 1 July 1983 (governed by former section 26AA), contributions by a present or former spouse.

13. Contributions which secure entitlement to a pension depend on the year in which the contributions are made:

**(A) Contributions before 1975**

All contributions made to the Scheme before April 1975 form part of UPP. These include contributions to previous national pension schemes in the years 1936 to 1948 which are credited on a person's contribution record. The value of contributions credited for the years 1936 to 1948 is shown in Table 1 at paragraph 28. Details of the value of contributions paid by a person between 1948 and 1975 can be obtained from the British Department of Social Security.

**(B) Contributions in 1975 and later years**

For contributions from April 1975, the prerequisite for claiming UPP in respect of contributions made in a particular year is that the contributor's earnings factor for that year equals or exceeds the lower earnings limit for the year (these expressions are explained in paragraph 27). Details of a person's earnings factor and contribution record for a year can be obtained from the British Department of Social Security. The lower earnings limit for each tax year (6 April to 5 April) is shown in Table 2 at paragraph 28.

If this prerequisite is not met, there is no UPP in respect of that year. In those years that the prerequisite is met, the amount of the pension's UPP is calculated as follows:

- (1) In each year since 1975, UPP includes all primary Class 1, Class 2 and Class 3 contributions (explained in paragraph 27) which are made in a year in respect of which the pensioner's earnings factor equals the lower earnings

limit for the year. This will always be the case for years in which:

- Class 3 contributions were paid; or
- contributions were credited (although credited contributions which are not paid do not form part of UPP, the actual contributions, if any, made during years when contributions are credited do form part of UPP).

(2) In those years that the contributor's earnings factor exceeds the year's lower earnings limit, UPP is calculated as follows:

(a) In the years 1975 to 1978

(i) For people who pay only primary Class 1 contributions (i.e. contributions by employees) UPP includes those contributions up to the maxima shown in Table 3 at paragraph 28.

(ii) For self-employed people who pay only Class 2 contributions, UPP includes the value of up to 52 Class 2 contributions made by the person.

(iii) For people who pay both Class 1 and Class 2 contributions during the year, UPP is the sum of:

- all Class 2 contributions; and
- so much of the Class 1 contributions which does not exceed:

$$\mathbf{WLEL \times N \times C\%}$$

- **WLEL** is the weekly lower earnings limit for the year (see Table 2);
- **N** is the number of weeks in respect of which Class 2 contributions are *not* paid; and
- **C%** is the Class 1 contributions percentage rate provided in Table 4 at paragraph 28.

(b) In the years after 1978

During these years, UPP is:

$$\mathbf{Contributions - [Excess \times CO\%]}$$

- **Contributions** is all primary Class 1 and Class 2 contributions made during the year;
- **Excess** is the amount by which the contributor's earnings factor in a year exceeds that year's lower earnings limit (see Table 2); and

- **CO%** is the contracted-out percentage for the year as shown in Table 5 and Table 6 at paragraph 28 (contracted-out percentage is explained in paragraph 27).

## (c) Currency translation

14. For taxation purposes, pensions paid under the Scheme must be converted into Australian currency. To determine the appropriate currency exchange to be used for converting British currency into Australian currency, refer to section 20 and Taxation Ruling IT 2498. Pensions received in foreign currency should, strictly, be translated to Australian currency on the following basis:

- (a) if a pension is sent to Australia - at the exchange rate applicable when each pension instalment is received;
- (b) if a pension is not sent to Australia - at the exchange rate applicable at the end of the year of income in which the pension is received (the relevant year of income).

15. However, recognising the difficulties that a strict application of the law may cause some pensioners, we will accept translation of pensions sent to Australia on the basis of the average annual exchange rate for the relevant year of income.

16. If the pension is translated to Australian dollars at the average annual exchange rate or at the exchange rate applicable at the end of a year of income:

- (a) the deductible amount of the UPP should be calculated in British currency;
- (b) the gross amount of the pension in British currency should be reduced by the deductible amount; and
- (c) the net amount should be translated to Australian dollars at the average annual exchange rate or at the end of year of income exchange rate, as the case may be.

## Date of effect

17. This Ruling applies (subject to any limitations imposed by statute) to pensions commencing both before and after the date on which it is issued.

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## **Explanations**

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### **(a) Deductible amount determined by the Commissioner**

18. Under subsection 27H(3), the Commissioner has a discretion to substitute a deductible amount different from the amount calculated in accordance with the formula in subsection 27H(2). This substituted amount is calculated by the alternative method in this Ruling. The Commissioner will exercise his discretion if he considers the subsection 27H(2) amount is inappropriate having regard to the terms and conditions applying to the pension and to any other matters he considers to be relevant. In this regard, we appreciate that it will be difficult for British National Insurance Scheme pensioners to calculate the exact amount of UPP because of difficulties in obtaining all the necessary information and the complexity of the calculations involved. We accept that contributory pensions from the Scheme have a deductible amount, and we consider 8% of the pension received to be an appropriate estimate of that amount. In selecting a fixed percentage exclusion, it is a relevant factor that the pensions are not indexed for inflation.

### **(b) The exact method for calculating deductible amount**

19. Where the Commissioner does not exercise his discretion under subsection 27H(3), the deductible amount of a pension is determined under subsection 27H(2) if it was first payable on or after 1 July 1983; or former section 26AA if payable before 1 July 1983. Essentially, it is the UPP of a pension distributed over the expected term of the pension.

#### **(i) Deductible amount of a Category A pension**

20. For the purposes of this Ruling, we consider Category A pensions of married people to be reversionary (because a widowed mother's allowance, a widow's pension or a Category B pension may be paid to the surviving spouse). Therefore, for pensions first payable on or after 1 July 1983, the joint life expectancy of husband and wife is taken into account in determining the relevant number. Pensions payable before 1 July 1983 are governed by former section 26AA which provides that only the pensioner's life expectancy is to be taken into account.



**(ii) Deductible amount of widowed mother's allowances, widow's pensions and Category B pensions**

21. A person's entitlement to a widowed mother's allowance, widow's pension or Category B pension is dependent on the contribution record of the spouse who has died and not on the pensioner's own contribution record. Contributions which secured entitlement to the deceased spouse's Category A pension (or would have secured entitlement to one had the spouse not died) also secure entitlement to the widow/er's pension. For the purposes of this Ruling, we consider the widowed mother's allowance, widow's pension and Category B pension to be a reversion of the deceased spouse's pension. Therefore, the deductible amount of the deceased's pension will carry over to a widow/er's pension which is first payable on or after 1 July 1983.

22. In some cases, a single contribution record may secure entitlement to a number of consecutive pensions. For instance, a widow with a dependent child may first receive a widowed mother's allowance based on her deceased husband's contribution record. When her child ceases to be dependent she may receive a widow's pension. Finally, when she reaches retirement age, she may receive a widow's Category B pension. All these pensions are based on the widow's deceased husband's contribution record and, for the purposes of this Ruling, are considered to be a single pension. Therefore, the deductible amount is determined when the first pension is received.

23. A married woman may be entitled to a married woman's Category B pension based on her husband's contribution record. However, the purchase price of her Category B pension is the same as the purchase price of her husband's Category A pension, which is paid concurrently. Therefore, there is no deductible amount to be used against the wife's pension while the husband is still alive (rather, the deductible amount is off-set against the husband's pension). A widowed mother's allowance, widow's pension and Category B pension are all based on contributions of someone other than the recipient. These contributions are not included in the definition of UPP in former subsection 26AA(2) (which is applicable to pensions payable before 1 July 1983).

**(iii) Undeducted purchase price**

24. Contributory pensions are paid under the Scheme to people who satisfy certain contribution requirements. The requirements vary according to the contributor's circumstances and may differ from year to year. The cost of satisfying these requirements is the purchase

price of the pension. To put it another way, contributions which secure entitlement to a pension form part of its purchase price. As contributions which secure entitlement to the pension are not tax deductible or rebatable in Australia, they form *undeducted* purchase price, or UPP.

25. In some cases, to secure entitlement to a Category A pension, a person may supplement a deficient contribution record with contributions of a former spouse. As the contributions secure entitlement to the pension, they can form part of the UPP of a pension first payable on or after 1 July 1983. However, if the contributions used to supplement a person's contribution record have already been included in the UPP of the spouse's pension, there is no basis for allowing them to be included in UPP a second time in respect of a pension secured by virtue of the supplement.

26. Contributions which are not actually paid but are merely credited are not part of the purchase price of a pension. However, contributions made to another country's national insurance scheme which are credited to the contributor's record for the purpose of securing entitlement to the pension do form part of UPP. This is because a payment has been made to receive the credit (that is to say, the credit, which secured entitlement to the pension in respect of a particular year, has a purchase price).

#### **(A) Contributions before 1975**

For each year during the period 1936 to 1975, entitlement to a pension is secured by paying an average of 50 weekly standard contributions. The number of years in which this contribution requirement is met, therefore, is calculated by dividing the total number of weekly contributions paid during the period by 50. Contributions paid at higher levels secure an entitlement to an additional pension. Therefore, nearly all contributions secure entitlement to a pension and they are all treated as part of UPP.

#### **(B) Contributions in 1975 and later years**

Contributions made in 1975 and later years secure entitlement to a pension in respect of a particular year only if the earnings factor for that year equals or exceeds the lower earnings limit for the year. If this prerequisite is not met, the contributions are irrelevant for securing entitlement to a pension.

- (1) If a person's earnings factor equals the lower earnings limit for the year, entitlement to a basic pension (explained in paragraph 27) is secured in respect of that year. Class 3 contributions are paid, and contributions are

credited, only to the extent necessary for a person to gain an earnings factor equal to the year's lower earnings limit.

(2) (a) In the years 1975 to 1978

(i) Primary Class 1 contributions up to the maxima shown in Table 3 are sufficient to secure entitlement to a pension. Contributions in excess of these maxima do not secure any entitlement to an extra pension and therefore do not form part of the pension's UPP.

(ii) Self-employed people pay Class 2 contributions. Each Class 2 contribution secures an entitlement to a pension in respect of a particular week and 52 Class 2 contributions secure entitlement to a pension in respect of the year. Contributions in excess of this requirement do not secure any extra entitlement and therefore are excluded from UPP.

(iii) Someone who is both self-employed and an employee during a year may pay both primary Class 1 and Class 2 contributions. Since each Class 2 contribution secures an entitlement to a pension in respect of a particular week, any primary Class 1 contributions also paid during the year need only satisfy the contribution requirement for the remaining weeks to secure entitlement to a pension for the year. The contribution requirement for a particular week is met if a primary Class 1 contribution is paid on earnings at the weekly lower earnings limit. Contributions in excess of this amount do not secure entitlement to a pension and are excluded by the formula **WLEL x N x C%**.

(b) In the years after 1978

People who choose not to participate in the State Earnings Related Pension Scheme and forgo the right to a supplementary pension (explained in paragraph 27) pay a reduced rate of contributions on earnings over a certain limit (called the contracted-out rate). Contributions paid at the contracted-out rate do not secure entitlement to a pension. Therefore, this part of the contributions must be excluded from UPP. All other contributions secure entitlement either to a basic pension or to a supplementary pension and are incorporated into UPP by using the formula **Contributions - [Excess x CO%]**.

## Definitions

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27. Terms used in this Ruling have the following meanings:

<b>Basic pension</b>	The pension secured in respect of a particular year after 1975 by paying primary Class 1 contributions for the year on earnings at the lower earnings limit, or by paying 52 Class 2 or Class 3 contributions. See also 'Supplementary pension'.
<b>Category A pension</b>	A retirement pension based primarily on the recipient's own contributions. In certain situations it is possible to supplement a person's own contribution record with contributions made by a former spouse.
<b>Category B pension</b>	A retirement pension based on the contribution record of the recipient's spouse. Eligibility requirements depend on whether the recipient is a married woman, a widow or a widower. However, the basic requirement is that the spouse satisfy the contribution requirements for a Category A pension.
<b>Category C pension</b>	A non-contributory pension payable to people who were over 65 on 5 July 1948 and their widows.
<b>Category D pension</b>	A non-contributory pension payable to people who are aged 80 or over.
<b>Class 1 contributions</b>	Contributions paid to the Scheme by employees and employers. Employees pay primary Class 1 contributions at a certain percentage on earnings between a minimum and a maximum threshold. Employers pay secondary Class 1 contributions (which do not form part of UPP).
<b>Class 2 contributions</b>	Contributions of a fixed amount levied on self-employed people.

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**Class 3 contributions**

Voluntary contributions paid to supplement a person's deficient contribution record. They can be made only to the extent necessary for a person to satisfy the minimum contribution requirement for a particular year.

**Contracted-out percentage**

It is possible to contract out of the National Insurance Scheme to some extent by paying a reduced rate of contributions (the contracted-out percentage) and forgoing the right to a pension or additional pension.

**Credited contributions**

In certain situations (e.g. during periods of unemployment) a person may receive a credit for contributions which have not been paid to the Scheme. The amount of the credit is the amount necessary to satisfy the contribution requirement for a basic pension in respect of the period for which the credits are awarded. Ordinarily, no contributions will have been paid when a credit is awarded. However, a credit may also be received for contributions made to certain other countries' pension schemes while temporarily living abroad, in which case the credit is derived by actually making a contribution.

**Earnings factor**

The basis for assessing a person's entitlement to a pension in respect of contributions made in 1975 and later years. Broadly, a person's earnings factor for a year is the sum of:

- the earnings in respect of which primary Class 1 contributions have been paid or credited;
- and
- the number of Class 2 and 3 contributions paid *multiplied by* the weekly lower earnings limit for the year (see Table 2).

**Lower earnings limit**

The lowest level of earnings at which primary Class 1 contributions are payable (see Table 2 at paragraph 28). No Class 1 contributions are payable by people with earnings below this level.

<b>Supplementary pension</b>	The pension additional to the basic pension, earned after 1978 by paying primary Class 1 contributions on earnings above the lower earnings limit. The scheme under which the supplementary pension is paid is called the State Earnings Related Pension Scheme (SERPS).
<b>Widowed mother's allowance</b>	A weekly benefit based on the contribution record of the recipient's spouse paid to widows who have children or who are pregnant.
<b>Widow's pension</b>	A weekly benefit based on the contribution record of the recipient's spouse paid to certain widows under retirement age who are not entitled to a widowed mother's allowance.

## Tables

28. The tables referred to in this Ruling are set out below.

*Table 1: Value of contributions, 1936 to 1948*

Year in which contributions first made	Number of credited contributions	Cumulative value of credited contributions*	
		Men	Women
1948 (to 4 July)	13	£1.30	£1.08
1947	66	£6.60	£5.50
1946	118	£10.61	£8.75
1945	170	£13.26	£10.92
1944	222	£15.86	£13.08
1943	274	£18.46	£15.25
1942	326	£21.06	£17.42
1941	379	£23.54	£19.46
1940	431	£25.87	£21.30
1939	483	£28.04	£22.82
1938	535	£30.20	£24.33
1937	587	£32.37	£25.85
1936	639	£34.54	£27.37

\* Note that the amounts shown in column 3 represent the cumulative total, not the value of each contribution.

**TR 93/13***Table 2: Lower earnings limits*

<b>Tax year</b>	<b>Yearly lower earnings limit</b>	<b>Weekly lower earnings limit</b>
1975-1976	£572.00	£11.00
1976-1977	£676.00	£13.00
1977-1978	£780.00	£15.00
1978-1979	£910.00	£17.50
1979-1980	£1,014.00	£19.50
1980-1981	£1,196.00	£23.00
1981-1982	£1,404.00	£27.00
1982-1983	£1,534.00	£29.50
1983-1984	£1,690.00	£32.50
1984-1985	£1,768.00	£34.00
1985-1986	£1,846.00	£35.50
1986-1987	£1,976.00	£38.00
1987-1988	£2,028.00	£39.00
1988-1989	£2,132.00	£41.00
1989-1990	£2,236.00	£43.00
1990-1991	£2,392.00	£46.00
1991-1992	£2,704.00	£52.00

*Table 3: Primary Class 1 contributions  
maxima, 1975 to 1978*

<b>Tax year</b>	<b>Maximum amount of Class 1 contributions in a year which can form part of UPP</b>
1975-1976	£31.46
1976-1977	£38.87
1977-1978	£44.85

*Table 4: Primary Class 1 contributions  
percentage rate*

<b>Tax year</b>	<b>Class 1 contributions percentage rate</b>
1975-76	5.50%
1976-77	5.75%
1977-78	5.75%

*Table 5: Contracted-out percentage*

<b>Tax year</b>	<b>Contracted-out percentage</b>
1978-1979	4.00%
1979-1980	4.00%
1980-1981	4.25%
1981-1982	5.25%
1982-1983	6.25%
1983-1984	6.85%
1984-1985	6.85%
1985-1986 <sup>1</sup>	6.85%
1986-1987 1987-1988 1988-1989	Depends on earnings factor (see Table 6)
1989-1990 <sup>2</sup>	7.00%
1990-1991	7.00%
1991-1992	7.00%

<sup>1</sup>To 5 October 1985<sup>2</sup>From 5 October 1989*Table 6: Contracted-out percentage, 1985 to 1989*

<b>Tax year</b>	<b>Earnings factor</b>	<b>Contracted-out percentage</b>
1985-1986 <sup>1</sup>	£1,846.00 - 2,859.95	2.85%
	£2,859.96 - 4,679.99	4.85%
	£4,680.00 - 13,779.96	6.85%
1986-1987	£1,976.00 - 3,119.99	2.85%
	£3,120.00 - 4,940.03	4.85%
	£4,940.04 - 14,820.00	6.85%
1987-1988	£2,028.00 - 3,379.99	2.85%
	£3,380.00 - 5,199.99	4.85%
	£5,200.00 - 15,340.00	6.85%
1988-1989	£2,132.00 - 3,639.99	3.00%
	£3,640.00 - 5,459.99	5.00%
	£5,460.00 - 15,860.00	7.00%
1989-1990 <sup>2</sup>	£2,236.00 - 3,899.99	3.00%
	£3,900.00 - 5,979.99	5.00%
	£5,980.00 - 16,900.00	7.00%

<sup>1</sup>From 6 October 1985<sup>2</sup>To 4 October 1989

## Examples

29. The following examples illustrate the method used for calculating the UPP and deductible amount of pensions received under the British National Insurance Scheme.



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(a) Andrew retires in 1990 aged 65 and receives a Category A pension from the Scheme of £3,000. His contribution record (which can be obtained from the British Department of Social Security) is as follows:

*1946 to 1948:* 118 contributions (from Table 1 we know that the value of this number of contributions is £10.61).

*1948 to 1975:* Contributions to the value of £900.

*1975 to 1990:*

Tax year	Earnings factor	Number and class of contributions	Value of contributions
1975-1976	£2,000	52 Class 1	£110.00
1976-1977	£500	15 Class 1	£28.75
1977-1978	£800	5 Class 1 30 Class 2	£20.13 £79.80
1978-1979	£910	52 Class 2	£98.80
1979-1980	£1,014	52 Class 2	£109.20
1980-1981	£1,196	52 Class 2	£130.00
1981-1982	£1,404	52 Class 2	£176.80
1982-1983	£1,534	52 Class 2	£195.00
1983-1984	£1,690	52 Class 2	£228.80
1984-1985	£1,768	10 Class 1 7 Class 3	£138.00 £31.50
1985-1986	£8,000	52 Class 1	£720.00
1986-1987	£8,200	52 Class 1	£738.00
1987-1988	£2,028	10 Class 1; Credits	£90.00
1988-1989	£2,132	10 Class 1; Credits	£100.00
1989-1990	£2,500	10 Class 1; Credits	£110.00

Andrew could claim 8% of his pension as deductible amount, resulting in a deductible amount of £240. However, instead he decided to work out the exact amount of his entitlement.

Andrew's UPP is calculated as follows:

- (a) All contributions before 1975 form part of UPP, i.e. £910.61.
- (b) (i) *1975-1976:* UPP includes Class 1 contributions only up to the maximum shown in Table 3, i.e. £31.46.
- (ii) *1976-1977:* Because the earnings factor is less than the lower earnings limit for the year (see

Table 2) none of the contributions for this year forms part of UPP.

(iii) *1977-1978:* All Class 2 contributions form part of UPP, i.e £79.80.

The maximum value of Class 1 contributions which can also form part of UPP is:

$$\mathbf{WLEL \times N \times C\%}$$

- **WLEL** = £15 (see Table 2);
- **N** = 22; and
- **C%** = 5.75% (see Table 4)

i.e. £18.98.

Therefore £98.78 forms part of UPP for this year.

(iv) *1978 to 1984:* UPP for these years includes all the contributions paid, because the earnings factor for each year equals the lower earnings limit for the year (see Table 2). Contributions for these years total £938.60.

(v) *1984-1985:* UPP for this year includes all contributions made because Class 3 contributions are made during the year. Therefore, UPP for this year is £169.50.

(vi) *1985-1986:* UPP for this year is:

$$\mathbf{Contributions - [Excess \times CO\%]}$$

- **Contributions** = £720;
- **Excess** = £8,000 - £1,846 (see Table 2); i.e, £6154; and
- **CO%** is 6.85% (see Table 6).

i.e. £298.45.

(vii) *1986-1987:* UPP for this year is:

$$\mathbf{Contributions - [Excess \times CO\%]}$$

- **Contributions** = £738;
- **Excess** = £8,200 - £1,976 (see Table 2); i.e, £6,224; and
- **CO%** is 6.85% (see Table 6).

i.e. £311.66.

- (viii) *1987 to 1990:* UPP in these years includes all contributions because credits are awarded for these years. Contributions for these years total £300.

Therefore, the total UPP is £3,059.06. The deductible amount for section 27H purposes is UPP *divided by* the greater of his and his wife's life expectancy. According to the 1980 to 1982 Australian life tables, Andrew's life expectancy is 13.8 years; his wife, Susan, is also 65 and her life expectancy is 18 years. Therefore, the deductible amount which Andrew can off-set against his pension each year is £3,059.06 *divided by* 18, i.e. £169.95.

(b) Assume that Susan in example (a) is younger than Andrew and has a dependent child under the age of 19. If Andrew died before retirement, Susan may receive the following consecutive pensions (all based on Andrew's contribution record):

- (i) a widowed mother's allowance until her child is aged 19;
- (ii) a widow's pension until she reaches pensionable age; and
- (iii) a widow's Category B pension when she retires.

The deductible amount for all these pensions would be the deductible amount applicable to Andrew's Category A pension before he died.

If Andrew died before receiving a pension, the UPP of Susan's pensions would be the same as was worked out above for Andrew (£3,059.06). The deductible amount for all her pensions would be UPP *divided by* her life expectancy at the time she received the first pension (the widowed mother's allowance).

(c) Neil retires in 1990 aged 66. He spent two years away from work in 1979 and 1980. He fails to qualify for a full Category A pension on the basis of his own contributions because he has an incomplete contribution record. His contribution record is as follows:

*1944 to 1948:* 222 contributions (from Table 1 we know that the value of this number of contributions is £15.86).

*1948 to 1975:* Contributions to the value of £600.

*1975 to 1990:*

<b>Tax year</b>	<b>Earnings factor</b>	<b>Number and class of contributions</b>	<b>Value of contributions</b>
1975-1976	£3,000	52 Class 1	£165.00
1976-1977	£3,300	52 Class 1	£189.75
1977-1978	£3,600	52 Class 1	£207.00
1978-1979	£4,000	52 Class 1	£260.00
1979-1980	zero	zero	zero
1980-1981	zero	zero	zero
1981-1982	£5,300	52 Class 1	£410.75
1982-1983	£5,800	52 Class 1	£507.50
1983-1984	£6,400	52 Class 1	£576.00
1984-1985	£7,000	52 Class 1	£630.00
1985-1986	£7,800	52 Class 1	£702.00
1986-1987	£8,500	52 Class 1	£765.00
1987-1988	£9,400	52 Class 1	£846.00
1988-1989	£10,000	52 Class 1	£900.00
1989-1990	£11,200	52 Class 1	£851.48

Neil was divorced in 1985. His former wife, a self-employed accountant, paid 52 Class 2 contributions in both 1979 and 1980, a total of £239.20. Neil is able to supplement his contribution record with these contributions by his wife, thus entitling him to a full Category A pension of £3,800. He could claim 8% of his pension as deductible amount, resulting in a deductible amount of £304. However, instead he decided to work out the exact amount of his entitlement.

Neil's UPP is calculated as follows:

- (a) All contributions before 1975 form part of UPP, i.e. £615.86.
- (b) (i) *1975 to 1978:* UPP includes Class 1 contributions in each year only up to the maxima shown in Table 3, i.e. a total of £115.18.
- (ii) *1978 to 1990:* UPP for each of these years is:

**Contributions - [Excess x CO%]**

Using this formula the total UPP for these years is £2,635.

Therefore, the total UPP calculated from Neil's contributions is £3,366.04

- (c) Neil has supplemented his contribution record with £239.20 of his wife's contributions. If his former wife has not used the £239.20 in calculating UPP for Australian tax purposes on a

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pension of her own, this amount can be added to the £3,366.04 calculated above to give a total of £3,605.24.

Therefore, the total UPP is £3,605.24. The deductible amount for section 27H purposes is UPP *divided by* his life expectancy (he is unmarried). According to the 1980 to 1982 Australian life tables, Neil's life expectancy is 13.17 years. Therefore, the deductible amount which Neil can off-set against his pension each year is £3,605.24 *divided by* 13.17, i.e. £273.75.

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