# EXAMPLES

*Please note that the examples have been taken from the HMRC Manual as available November 2012 and are for guidance only*

## Security Example

QQ Ltd registered pension scheme makes a loan to QQ Ltd of £250,000. QQ Ltd offers a property as security that has a value of £300,000.

Six months later QQ sell the property and replace the security with another property worth £200,000. The amount of loan outstanding including interest is £230,000.

An unauthorised payments charge will arise on the difference between the value of the security and the amount of the loan outstanding - £30,000 at the rate of 40% resulting in a tax charge of £12,000.

## Interest Rate Example

Scheme makes a loan to employer ABC Ltd on 17 July 2006.

The average of the base lending rates on 17.07.2007 is 5.15%.

The minimum interest rate charged by the scheme must therefore be:

5.25% (which is 5.15% rounded up to nearest ¼ %) + 1% = 6.25%.

Where the interest rate charged by the registered pension scheme is less than the prescribed interest rate an unauthorised payment charge will be made on the amount owing based on the percentage that the interest rate applied to the loan is less than the official rate using the formula

$$\frac{100 - [(IR/PIR) \times 100]}{100} \times AO$$

Where

IR is the rate of interest payable

PIR is the prescribed rate of interest

AO is the amount of loan outstanding (excluding interest)

JJ Ltd Registered Pension Scheme makes a loan to JJ Ltd of £50,000. At the time the loan is made the prescribed rate of interest is 5%. The rate of interest payable under the loan agreement is 4.5%.

The amount of the unauthorised payment is

$$\frac{100 - [(4.5/5) \times 100]}{100} \times 50,000 = £5,000$$

JJ Ltd will be liable to an unauthorised payments charge of £5,000 @ 40%.

JJ Ltd Registered Pension Scheme will be liable to a scheme sanction charge.

## Term of Loan Example

MM Ltd RBS makes a loan to sponsoring employer MM Ltd on 6 April 2006.  The loan repayment date is 5 October 2011.  The amount outstanding on the loan including interest when the loan is taken out is £10,000.

The amount of the unauthorised payment is:

$$\frac{[(2009 \text{ days}/1826 \text{ days}) \times 100] - 100}{100} \times £10,000 = £1,002$$

The employer MM Ltd will be liable to an unauthorised payments charge of £1,002 x 40%.

MM Ltd RBS will also be liable to a scheme sanction charge.

If the calculation above results in an amount which exceeds the amount of the loan outstanding the amount of the unauthorised payment will be limited to 100% of the amount of loan outstanding including interest.

Where a loan has been rolled over, the 5-year period will commence on the date the rollover took place.

## Maximum Amount of Loan

SS Ltd Pension Scheme makes a loan to SS Ltd of £100,000.  Before the loan is made, the value of the scheme is £180,000.

SS Ltd will be subject to an unauthorised payments charge of £100,000 - £90,000 (50% of £180,000) = £10,000 @ 40%.

The pension scheme will also be liable to a scheme sanction charge.

## Repayment Terms Example

XYZ Ltd Registered Pension Scheme makes a loan to XYZ Ltd on 1 January 2007 of £50,000 for a period of 5 years.  The total interest chargeable on the loan over the period is £20,000. The following repayments must be made by the company:

The required amount repayable by the company at the end of the first loan year and subsequent years is [(50,000 + 20,000) / 5] x 1 = £14,000.

An unauthorised payments tax charge will be charged if the terms of the loan mean that the required amount is not due to be paid by the borrower during any loan year. This amount is calculated at the beginning of the loan for each loan year and the unauthorised payment is the largest amount by which the payments due in any loan year are less than the required amount.

Where loan repayments are not repaid in equal annual instalments, an unauthorised payment charge will arise on the largest amount of the difference between the required amount and the aggregate amount payable during a 12-month loan period. If the amount

payable in a year exceeds the required amount, the calculation for that year is nil.

The required amount to be paid by XYZ Ltd on the 5 year loan of £50,000 plus £20,000 interest is: £14,000 per year.

The loan agreement provides for the following payments to be made

Year 1 £10,000 (difference £4,000)
Year 2 £18,000 (nil)
Year 3 £12,000 (difference £2,000)
Year 4 £14,000 (nil)
Year 5 £16,000 (nil)

The amount of the unauthorised payment is the highest amount calculated of the 5 years - £4,000.

XYZ Ltd will be charged an unauthorised payment of £4,000 @ 40%.

The scheme will be liable to a scheme sanction charge.