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Facts

A company proposed to launch a scheme to induce members of the staff to leave its employ before reaching the normal retiring age against payment of an allowance in view of redundancy. The scheme known as the "Early Leavers Scheme" covered all members of the pensionable staff with a minimum of 10 years continuous service. The allowance payable to the early leavers was computed on the basis of the number of completed years of service.

The members of the staff would also be entitled to their normal pension benefit available in accordance with the rules of their staff pension fund.

Point at issue

Whether the portion of the allowance not exceeding the specified sum is exempt from tax as provided in the second Schedule Part II Item 5 of the Income Tax Act 1995.

Ruling

The portion of retiring allowance not exceeding the specified sum is exempt from income tax.