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Facts

P Ltd, an insurance company, has a number of corporate clients which do not have their own pension schemes. However, they provide a pension benefit by making contributions to the respective Personal Pension Schemes of their employees.

Points in issue

Whether contributions made by an employer to a personal pension scheme subscribed by an employee

a) is an allowable deduction to the employer?
b) is a taxable benefit to the employee?

Ruling

The law entitles an employer to claim a deduction in respect of an amount irrevocably paid by him under a superannuation fund which is defined to mean "a fund or scheme established for the benefit of the employees of an employer and approved by the Director-General." The contributions made in this case, though not made under a superannuation fund but to a personal pension fund instead, is nonetheless an expenditure exclusively incurred in the production of gross income of the employer.

The contribution made by the employer to the personal pension scheme of the employee is therefore an allowable deduction to the employer under section 18 (1) of the Income Tax Act 1995, provided the following conditions are satisfied:

a) the employee's contribution to the scheme is reasonable, having regard to the grade of the employee and his position in the organization ; and
b) the contribution is not made by reason of any close connection existing between the employer and the employee such as blood relationship, marriage or share-ownership, etc.

On the other hand, the contribution is a taxable benefit in the hands of the employee in accordance with Section 10 (2) of the Income Tax Act 1995.