These notes refer to the Taxation of Pensions Act 2014 (c.30) which received Royal Assent on 17 December 2014

TAXATION OF PENSIONS ACT 2014

EXPLANATORY NOTES

OVERVIEW OF THE STRUCTURE OF THE ACT

43. The Act has four sections and two Schedules.

44. Section 1 introduces Schedule 1.

45. Section 2 restricts and reduces the tax charges that apply to certain lump sums paid in respect of a member.

46. Section 3 introduces Schedule 2.

47. Section 4 contains definitions that apply to this Act and a power to amend specified legislation in consequence of this Act.

48. Schedule 1 provides the detail of the changes to existing legislation required to provide for the new pensions flexibility and is split into seven Parts.

49. Part 1 of Schedule 1 amends Finance Act 2004 (FA 2004) to distinguish between sums and assets designated as available to pay a drawdown pension before 6 April 2015 (to a drawdown pension fund), and those designated on or after that date where there has not been a previous designation at that date (to a flexi-access drawdown fund). There is no limit on how much can be taken from a flexi-access drawdown fund but when benefits are first accessed from that fund, the money purchase annual allowance rules described in Part 4 are triggered in respect of that member. Those with a drawdown pension fund can designate further sums and assets to that fund on or after 6 April 2015 but the existing capped drawdown limit will continue to apply to that fund. Similar rules apply for dependants.

50. Part 2 of Schedule 1 amends the requirements for lifetime and short-term annuities to provide greater flexibility for both members and dependants so that where the individual becomes entitled to the annuity on or after 6 April 2015, some of the conditions are removed that would have applied had the individual become entitled to the annuity before that date.

51. Part 3 of Schedule 1 permits the payment of a new type of authorised lump sum, an uncrystallised funds pension lump sum (UFPLS). An UFPLS can be paid on or after 6 April 2015 directly from pension savings under a money purchase arrangement to certain individuals aged 55 or over. There is no limit on the amount that can be paid as an UFPLS subject to the individual having available lifetime allowance. The individual will normally be liable to income tax at their marginal rate on 75% of the UFPLS, with the remaining 25% paid tax-free (the tax-free element thus gives the same result as if the individual had instead received a tax-free pension commencement lump sum with a taxed pension payment). Individuals who meet the conditions to have an UFPLS can therefore, if they wish, access as much of their money purchase pension savings as they want, without having first to designate the funds as available for drawdown. Where an UFPLS is paid, then this is flexible access and the money purchase annual allowance rules inserted by Part 4 of Schedule 1 are triggered in respect of that member.

52. Part 4 of Schedule 1 amends the annual allowance charge provisions in FA 2004. It sets out that where an individual has flexibly accessed their pension savings on or after 6 April 2015, a £10,000 annual allowance will immediately apply to their future money purchase pension savings: the money purchase annual allowance rules. However, those individuals will retain an annual allowance for defined benefits pension savings of at least £30,000, depending on the value of new money purchase pension savings. Unused annual allowance brought forward from earlier tax years will not be available to increase the £10,000 annual allowance for their money purchase pension savings.

53. Part 5 of Schedule 1 makes a number of miscellaneous amendments to FA 2004, the Income Tax (Earnings and Pensions) Act 2003 (ITEPA 2003) and various Statutory Instruments made under FA 2004.

54. Part 6 of Schedule 1 amends the Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567) to provide for the passing on of information, both to scheme administrators and members, when individuals have flexibly accessed their pension savings to enable the correct operation of the money purchase annual allowance rules.

55. Part 7 of Schedule 1 makes a number of amendments in connection with non-UK pensions. Where UK pensions tax relief is provided to individuals who are members of overseas pension schemes, there are similar conditions and limitations to those that exist for registered pension schemes on the amount of tax relief available, what benefits can be provided from the UK tax-relieved savings and information requirements. Therefore, members of overseas schemes with pension benefits that have received UK tax relief are in broadly the same position as members of UK registered pension schemes. As the Act provides for much more flexibility in how members of registered pension schemes access their money purchase savings along with reporting of that flexible access and a reduced annual allowance, Part 7 makes various changes in the existing limitations on access to pension savings in overseas schemes to maintain compatibility with the UK registered pension scheme tax regime.

56. Schedule 2 makes a number of changes in connection with death benefits and is split into four Parts.

57. Part 1 of Schedule 2 extends the categories of person who can have a drawdown fund following the death of a member. Currently pension death benefits can be paid only to dependants. This Part amends the rules to allow nominees and successors to designate funds into flexi-access drawdown funds and receive payments of drawdown pensions. It also provides that unused drawdown funds on the death of any beneficiary can be passed on to another successor.

58. Part 2 of Schedule 2 makes various amendments in connection with the lump sum death benefits that are subject to the special lump sums death benefit charge to provide that any lump sum death benefits from a nominee’s or successor’s drawdown fund are subject to similar taxing provisions as when lump sum death benefits are paid from a member’s drawdown fund.

59. Part 3 of Schedule 2 introduces a new test against the lifetime allowance for funds that were uncrystallised at the time of a member’s death and are subsequently designated as available to provide a flexi-access drawdown pension for a dependant or a nominee, but only where any income withdrawal from the drawdown fund can be paid income-tax-free as a result of the member having died before age 75.

60. Part 4 of Schedule 2 ensures that payments of income withdrawal from a dependant’s, nominee’s or successor’s drawdown fund are not subject to income tax where the preceding member, dependant, nominee or successor, as appropriate, died before age 75 and the designation of the funds into drawdown for the beneficiary was made within a two-year period. It also ensures that the equivalent payments from non-UK pension schemes will receive the same tax treatment.