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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations amend the Registered Pension Schemes (Transfer of Sums and Assets) Regulations 2006 (“the Transfer Regulations”). These amendments follow recent changes to Part 4 of the Finance Act 2004 (“FA 2004”), which contains the main provisions relating to the taxation of pension schemes.

The Finance Act 2008 amended section 172A of FA 2004 so that specified surrenders of (or agreements to surrender) rights to payments under a lifetime annuity or dependants’ annuity are treated as unauthorised payments. Unauthorised payments to or in respect of members are subject to tax charges under section 208 (unauthorised payments charge), section 209 (unauthorised payments surcharge) and section 239 (scheme sanction charge) of FA 2004.

Where there is a transfer of the sums and assets relating to an annuity from one life insurance company to another, the Transfer Regulations prescribe the circumstances in which a surrender of rights is not treated as an unauthorised payment by section 172A (and consequently no tax charge arises). This is achieved by treating the new annuity as if it were the original one in prescribed circumstances.

As a result of the changes to section 172A of FA 2004 it is necessary to add a reference to surrenders of rights to payments under lifetime annuities or dependants’ annuities to the Transfer Regulations. This means that where sums or assets are transferred from the life insurance company that was providing the lifetime annuity or dependants’ annuity to another life insurance company, and are applied by the latter company towards the provision of another lifetime annuity or dependants’ annuity, this will not constitute an unauthorised payment. The new annuity will be treated as if it were the original annuity for the prescribed purposes and in the prescribed circumstances with the result that no surrender of the old annuity is treated as having occurred for the purposes of section 172A.

Regulation 1 provides for citation, commencement and effect. Authority for the retrospective effect of these Regulations is provided by the new paragraphs 3(2CA) and 17(4A) of Schedule 28 to FA 2004 as inserted by paragraph 2 of Schedule 29 to the Finance Act 2008.

Regulation 2(2) adds a reference to surrenders of (or agreements to surrender) rights to payments under a lifetime annuity under section 172A to the table in regulation 6 of the Transfer Regulations. Where a lifetime annuity ceases to be payable and a new lifetime annuity becomes payable, the new annuity is treated as if it were the original annuity and there will not be an unauthorised payment under section 172A of FA 2004, to the extent that the amount of the sums and the value of the assets are transferred from the original annuity to the new one.

Regulation 2(3) substitutes a new regulation 10 to add a reference to surrenders of (or agreements to surrender) rights to payments under dependants’ annuities under section 172A. Similar provision for dependants’ annuities as that for lifetime annuities is made accordingly.

A full regulatory impact assessment has not been produced for this instrument as no impact on the private or voluntary sectors is foreseen.