EXPLANATORY NOTE

(This note is not part of the Regulations)

Part 2 of the Pensions Act 2004 (c. 35) established the Pension Protection Fund ("PPF"). The Pension Protection Fund (Tax) Regulations 2006 (S.I. 2006/575) ("the 2006 Regulations") apply the Tax Acts to PPF with modifications to ensure the tax treatment of pension compensation paid by PPF is the same tax treatment as of a pension or lump sum paid by a registered pension scheme.

Changes have been made to the PPF regime by the Pension Protection Fund, Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 2013 (S.I. 2013/627) and the Pension Protection Fund and Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations (Northern Ireland) 2013 (S.R. (NI) 2013 No. 95), in particular, in relation to the discharge of PPF money purchase lump sums.

These Regulations align the tax treatment of PPF money purchase lump sum payments and of pension compensation paid by PPF that is shared upon divorce, dissolution or annulment of a marriage or civil partnership, to the treatment of a lump sum paid by a registered pension scheme in similar circumstances.

Part 3 of the Pensions Act 2008 (c. 30) and Part 3 of the Pensions (No. 2) Act (Northern Ireland) 2008 (c. 13 (N.I.)) provide for pension compensation paid by PPF to be shared upon divorce etc by making a pension compensation order or provision, or by creating a pension compensation debit or credit.

Regulation 3(2) substitutes a new definition of "pension compensation provisions" in regulation 2(3) of the 2006 Regulations to include PPF compensation.

Regulation 3(3) extends the definition of "periodic compensation" in regulation 2(3) of the 2006 Regulations to include compensation payable on the discharge of a pension compensation credit.

Regulation 3(4) defines a "PPF money purchase lump sum".

Part 4 of the Finance Act 2004 (c. 12) ("FA 2004") provides for the taxation of pension schemes defined by section 150 as a scheme or other arrangements to provide specified benefits. Section 152 defines "an arrangement" as an arrangement relating to a pension scheme member.

Regulation 5 of the 2006 Regulations modifies the definition of "member" in section 151 of FA 2004. Regulation 4 amends that regulation to provide that an individual who receives a PPF money purchase lump sum is also a member.

Regulation 6(2) of the 2006 Regulations modifies the definition of "arrangement" in section 152 of FA 2004 to include individuals in receipt of compensation from PPF. Regulation 5 amends that regulation to include an individual who has received a PPF money purchase lump sum.

Regulation 6(3) of the 2006 Regulations modifies the definition of "arrangement" in section 152 of FA 2004 to cover the receipt of PPF compensation. Regulation 6 changes the modification to the definition of "arrangements" in that regulation to include arrangements under which an individual receives or expects to receive compensation payable on the discharge of a pension compensation credit or receives a PPF money purchase lump sum.

Regulation 7 inserts new paragraph (c) into regulation 8 of the 2006 Regulations so that payments of PPF money purchase lump sums will be treated as authorised member payments for the purposes of Part 4 of FA 2004.

Regulation 14 of the 2006 Regulations applies section 168 of and Part 2 of Schedule 29 to FA 2004 to the payment of lump sums by PPF to a dependant of a qualifying individual. Regulation 8 substitutes a new definition of “qualifying individual” in regulation 14 to include an individual who is a transferee entitled to a pension compensation credit.

Section 220 of FA 2004 provides for the lifetime allowance to be increased where a person becomes entitled to a pension credit. Regulation 9 inserts new regulation 23A into the 2006 Regulations to enable a PPF pension compensation credit to be taken into account.

Section 279(1) of FA 2004 defines “pension credit”, “pension debit” and “pension sharing order or provision”. Regulation 10 inserts new regulation 28A into the 2006 Regulations to extend those definitions to cover pension compensation paid by PPF that is shared on divorce and to include pension compensation credits and debits.

Regulation 11 substitutes new regulations 42 and 42A in the 2006 Regulations. These provide that specified lump sums paid by PPF are treated for tax purposes in the same way as lump sums paid by a registered pension scheme to which either section 636A or 636B of the Income Tax (Earnings and Pensions) Act 2003 (c. 1) applies.

A Tax Information and Impact Note covering this instrument will be published on the HMRC website at http://www.hmrc.gov.uk/thelibrary/tiins.htm.