

EXPLANATORY MEMORANDUM TO
THE REGISTERED PENSION SCHEMES (BRIDGING PENSIONS) AND
APPOINTED DAY REGULATIONS 2016

2016 No. 1005

1. Introduction

- 1.1 This explanatory memorandum has been prepared by HM Revenue & Customs and is laid before the House of Commons by Command of Her Majesty.

2. Purpose of the instrument

- 2.1 Bridging pensions are paid by some occupational pension schemes for members who start to receive their scheme pensions, but are yet to reach state pension age.
- 2.2 The purpose is to provide a level amount of regular income that some members receive from the date they retire.
- 2.3 Following the introduction of a single tier state pension, this instrument will bring the pension tax rules on bridging pensions in line with Department for Work and Pensions legislation.

3. Matters of special interest to Parliament

Matters of special interest to the Select Committee on Statutory Instruments

- 3.1 None.

Other matters of interest to the House of Commons

- 3.2 As this instrument is subject to negative resolution procedure and has not been prayed against, consideration as to whether there are other matters of interest to the House of Commons does not arise at this stage.

4. Legislative Context

- 4.1 These regulations are to be made under paragraph 2(4)(h) and (8) of Schedule 28 to the Finance Act 2004 and section 20 of the Finance Act 2016.
- 4.2 Paragraph 2(4) of Schedule 28 prescribes the circumstances in which the rate of the scheme pension may reduce without breaching the rules to be a scheme pension.
- 4.3 A bridging pension is a higher level of scheme pension that may be paid between the date the member retires until the date the member reaches pensionable age.
- 4.4 This instrument ensures the existing circumstances when a bridging pension can be reduced continues now that a single tier state pension is paid by the Department for Work and Pensions.

5. Extent and Territorial Application

- 5.1 The extent of this instrument is the United Kingdom.
- 5.2 The territorial application of this instrument is the United Kingdom.

6. European Convention on Human Rights

- 6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

What is being done and why

- 7.1 Where a scheme pension is paid under a registered pension scheme, one of the conditions for it to be authorised under the tax rules is that it cannot decrease except in specified circumstances.
- 7.2 One of these circumstances is where the state pension comes into payment, where the reduction that is permitted is based upon the amount of the state pension.
- 7.3 Existing tax legislation refers to the basic state pension and contracting-out. Both no longer exist from 6 April 2016.
- 7.4 This instrument changes the pensions tax legislation to align it with the Department for Work and Pensions legislation. The tax legislation now refers to the new single tier state pension and does not take into account contracting-out after 6 April 2016.

Consolidation

- 7.5 None.

8. Consultation outcome

- 8.1 There was no formal consultation as this instrument aligns aspects of the tax rules with the Pensions Act 2014 following the introduction of the single tier state pension from 6 April 2016.
- 8.2 Following the publication of the Finance Bill 2016, HMRC discussed the amendment to Part 1 of Schedule 28 to the Finance Act 2004 by section 20 of the Finance Act 2016 with industry representatives via the Pension Stakeholder Forum. This included representatives from the industry, all external stakeholders representing various associations as well as pension providers.
- 8.3 With the continuing rises in state pension age, industry expect an increasing need for schemes to be able to pay bridging pensions to members between their retirement date and the date they reach state pension age. In essence industry wanted to retain the option for bridging pensions to continue to be paid without the reduction affecting the nature of the ongoing instalments of the scheme pension as authorised payments.
- 8.4 This instrument therefore allows industry to continue to pay bridging pensions as it was able to under Part 1 of Schedule 28 to the Finance Act 2004 prior to the amendment in the Finance Act 2016. Industry suggested a simple multiple of the relevant state pension rate (being the full rate of the single tier state pension) for the permitted amount.
- 8.5 Therefore, on the basis that this instrument places stakeholders in the same position they were in prior to the amendment by the Finance Act 2016, no formal consultation was necessary.

9. Guidance

- 9.1 Guidance changes are required to HMRC's Pensions Tax Manual.

- 9.2 Changes will reflect the fact that for some people the maximum permitted reduction will be calculated by reference to the single tier state pension.
- 9.3 The Pensions Tax Manual will be updated to reflect these changes at the earliest suitable opportunity.

10. Impact

- 10.1 There is no impact on business, charities or voluntary bodies.
- 10.2 There is no impact on the public sector.
- 10.3 A Tax Information and Impact Note covering this instrument was published on 9 December 2015 alongside draft legislation for Finance Bill 2016, and is available on the HMRC website at <https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins>. It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

- 11.1 The legislation applies to activities that are undertaken by small businesses.
- 11.2 No specific action is proposed to minimise regulatory burdens on small businesses.
- 11.3 The basis for the final decision on what action to take to assist small businesses was that, although the changes do not discriminate between businesses, this instrument merely maintains the existing position we do not expect this to impact small business.

12. Monitoring & review

- 12.1 The policy will be monitored through information collected from HMRC sources, including customer feedback.

13. Contact

- 13.1 Karen Bishop at HM Revenue & Customs. Telephone: 03000 512336 or email: pensions.policy@hmrc.gsi.gov.uk.