



# Finance Act 2016

## 2016 CHAPTER 24

### PART 1

#### INCOME TAX

##### *Pensions*

#### **19 Standard lifetime allowance from 2016-17**

- (1) Section 218 of FA 2004 (pension schemes etc: lifetime allowance) is amended in accordance with subsections (2) to (5).
- (2) For subsections (2) and (3) (standard lifetime allowance is £1,250,000 but may be increased by Treasury order) substitute—
  - “(2) The standard lifetime allowance for the tax years 2016-17 and 2017-18 is £1,000,000.
  - (2A) The standard lifetime allowance for any later tax year (“the subsequent tax year”) is the same as the standard lifetime allowance for the tax year immediately preceding the subsequent tax year, unless subsection (2C) provides for it to be higher.
  - (2B) Subsection (2C) applies if—
    - (a) the consumer prices index for the month of September in any tax year (“the prior tax year”) is higher than it was for the previous September, and
    - (b) the prior tax year is the tax year 2017-18 or a later tax year.
  - (2C) The standard lifetime allowance for the tax year following the prior tax year is the standard lifetime allowance for the prior tax year—
    - (a) increased by the percentage increase in the index, and
    - (b) if the result is not a multiple of £100, rounded up to the nearest amount which is such a multiple.

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(2D) The Treasury must before the tax year 2018-19, and before each subsequent tax year, make regulations specifying the amount given by subsections (2A) to (2C) as the standard lifetime allowance for the tax year concerned.”

(3) After subsection (5BB) insert—

“(5BC) Where the operation of a lifetime allowance enhancement factor is provided for by any of sections 220, 222, 223 and 224 and the time mentioned in the definition of SLA in the section concerned fell within the period consisting of the tax year 2014-15 and the tax year 2015-16, subsection (4) has effect as if the amount to be multiplied by LAEF were £1,250,000 if that is greater than SLA.

(5BD) Where more than one lifetime allowance enhancement factor operates, subsection (5BC) does not apply if any of subsections (5A), (5B) and (5BA) applies.”

(4) After subsection (5D) insert—

“(5E) Where benefit crystallisation event 7 occurs on or after 6 April 2016 by reason of the payment of a relevant lump sum death benefit in respect of the death of the individual during the period consisting of the tax year 2014-15 and the tax year 2015-16, the standard lifetime allowance at the time of the benefit crystallisation event is £1,250,000.”

(5) After subsection (5E) insert—

“(5F) Where—

(a) benefit crystallisation event 5C occurs by reason of the designation on or after 6 April 2015 of sums or assets held for the purposes of an arrangement relating to the individual, and

(b) the individual died before 6 April 2012,

the standard lifetime allowance at the time of the benefit crystallisation event is £1,800,000.

(5G) Where—

(a) benefit crystallisation event 5C occurs by reason of the designation on or after 6 April 2015 of sums or assets held for the purposes of an arrangement relating to the individual, and

(b) the individual died in the period consisting of the tax year 2012-13 and the tax year 2013-14,

the standard lifetime allowance at the time of the benefit crystallisation event is £1,500,000.

(5H) Where—

(a) benefit crystallisation event 5C occurs by reason of the designation on or after 6 April 2016 of sums or assets held for the purposes of an arrangement relating to the individual, and

(b) the individual died in the period consisting of the tax year 2014-15 and the tax year 2015-16,

the standard lifetime allowance at the time of the benefit crystallisation event is £1,250,000.

(5I) Where—

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- (a) benefit crystallisation event 5D occurs by reason of a person becoming entitled on or after 6 April 2016 to an annuity in respect of the individual, and
  - (b) the individual died in the period beginning with 3 December 2014 and ending with 5 April 2016,
- the standard lifetime allowance at the time of the benefit crystallisation event is £1,250,000.”
- (6) In section 280 of FA 2004 (abbreviations and general index for Part 4), in the entry for “standard lifetime allowance” for “and (3)” substitute “ to (2C) ”.
  - (7) In section 282 of FA 2004 (orders and regulations under Part 4), after subsection (2) (negative procedure applies to instruments not approved in draft) insert—
    - “(3) Subsection (2) does not apply to an instrument containing only regulations under section 218(2D).”
  - (8) The amendments made by subsections (2) to (4) have effect for the tax year 2016-17 and subsequent tax years.
  - (9) The amendment made by subsection (5)—
    - (a) so far as it consists of the insertion of new subsections (5F) and (5G)—
      - (i) is to be treated as having come into force on 6 April 2015, and
      - (ii) has effect in relation to benefit crystallisation events occurring on or after that date, and
    - (b) so far as it consists of the insertion of new subsections (5H) and (5I)—
      - (i) is to be treated as having come into force on 6 April 2016, and
      - (ii) has effect in relation to benefit crystallisation events occurring on or after that date.
  - (10) Schedule 4 contains transitional and connected provision (including provision for “fixed protection 2016” and “individual protection 2016”).

## **20 Pensions bridging between retirement and state pension**

- (1) In Part 1 of Schedule 28 to FA 2004 (registered pension schemes: the pension rules), paragraph 2 (meaning of “scheme pension”) is amended in accordance with subsections (2) to (4).
- (2) In sub-paragraph (4) (which specifies circumstances in which amount of scheme pension may go down and gives power to specify additional circumstances) omit paragraph (c) (reduction by reference to state retirement pensions for persons reaching pensionable age before 6 April 2016).
- (3) Omit sub-paragraphs (4B), (5) and (5A) (interpretation of sub-paragraph (4)(c)).
- (4) In sub-paragraph (8) (regulations under certain sub-paragraphs may make back-dated provision) omit “or (5)”.
- (5) In consequence of the amendments made by subsections (2) and (3)—
  - (a) in FA 2006, in Schedule 23 omit paragraph 20(2) and (3), and
  - (b) in FA 2013, omit section 51(2).

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- (6) Regulations under paragraph 2(4)(h) of Schedule 28 to FA 2004 (power to prescribe permitted reductions of scheme pensions, and to do so with back-dated effect) may provide for the coming into force of the amendments made by subsections (2) to (5), and—
- (a) those amendments have effect in accordance with regulations under paragraph 2(4)(h) of that Schedule, and
  - (b) paragraph 2(8) of that Schedule (back-dating) applies for the purposes of regulations bringing the amendments into force only so as to permit the amendments to be given effect in relation to times not earlier than 6 April 2016.

#### Commencement Information

- II** [S. 20\(2\)-\(5\)](#) in force at 6.4.2016 with back-dated effect for the purposes of the amendments made by those subsections by [S.I. 2016/1005](#), [reg. 2](#) (with [regs. 1\(2\), 3, 4](#))

## 21 Dependants' scheme pensions

- (1) Part 2 of Schedule 28 to Part 4 of FA 2004 (pension death benefit rules) is amended as follows.
- (2) In paragraph 16A (dependants' scheme pension: when limits in paragraphs 16B and 16C apply), after sub-paragraph (1) insert—
 

“(1A) Sub-paragraph (1) is subject to paragraphs 16AA and 16AB.”
- (3) After paragraph 16A insert—

“16AA

Paragraphs 16B and 16C do not apply if—

- (a) each benefit crystallisation event that has occurred in relation to the member by reference to arrangements relating to the member under the scheme is benefit crystallisation event 5B (having unused funds under a money purchase arrangement at age 75), or
- (b) paragraph 12 of Schedule 36 (enhanced protection by reference to pre-6 April 2006 rights) applies in the case of the member immediately before the member's death.

16AB

- (1) Paragraph 16B does not apply if, at all times in the post-death year (as defined in that paragraph), the payable annual rate is less than the limit.
- (2) Paragraph 16C does not apply in relation to a period of 12 months within paragraph (a) or (b) of paragraph 16C(1) if, at all times in that period of 12 months, the payable annual rate is less than the limit.
- (3) “The payable annual rate”, at any time, is arrived at as follows—
  - (a) identify each dependants' scheme pension payable in respect of the member under the scheme to which a dependant of the member is actually entitled at that time, and

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- (b) identify the annual rate at which each pension identified at paragraph (a) is payable at that time, and
- (c) if only one pension is identified at paragraph (a), the payable annual rate is the annual rate identified at paragraph (b), and
- (d) if two or more pensions are identified at paragraph (a), the payable annual rate is the total of the annual rates identified at paragraph (b).

- (4) “The limit”, at any time, is—
  - (a) the general limit at that time (see paragraph 16AC), or,
  - (b) if higher, the personal limit at that time (see paragraph 16AD).

#### 16AC

- (1) This paragraph applies for the purposes of paragraph 16AB(4).
- (2) “The general limit” at a time in the tax year 2016-17 is £25,000.
- (3) “The general limit” at a time in a later tax year (“year T”)—
  - (a) is given by—

$$G + \left( G \times U\% \right)$$

where G is the general limit at times in the tax year (“year P”) that precedes year T, or

- (b) if the amount given by paragraph (a) is not a multiple of £100, is that amount rounded up to the nearest amount that is such a multiple.

- (4) See paragraph 16AE for the meaning of U%.

#### 16AD

- (1) This paragraph applies for the purposes of paragraph 16AB(4).
- (2) “The personal limit” at a time in the tax year in which the member dies is arrived at as follows—
  - (a) identify each scheme pension under the scheme to which the member is actually or prospectively entitled immediately before the member's death, and
  - (b) as regards each pension identified at paragraph (a)—
    - (i) if it is one to which the member is actually entitled immediately before the member's death, identify the annual rate at which it is payable immediately before the member's death, or
    - (ii) if it is one to which the member is prospectively entitled immediately before the member's death, identify the annual rate at which it would have been payable immediately before the member's death had the member been actually entitled to it immediately before the member's death, and
  - (c) if only one pension is identified at paragraph (a), the personal limit is the annual rate identified at paragraph (b), and

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- (d) if two or more pensions are identified at paragraph (a), the personal limit is the total of the annual rates identified at paragraph (b).
- (3) “The personal limit” at a time in a tax year (“year S”) later than the tax year in which the member dies—
  - (a) is given by—

$$L + \left( L \times U\% \right)$$

where L is the personal limit at times in the tax year (“year P”) that precedes year S, or

- (b) if the amount given by paragraph (a) is not a multiple of £100, is that amount rounded up to the nearest amount that is such a multiple.
- (4) See paragraph 16AE for the meaning of U%.
- (5) If the scheme is a public service pension scheme, ignore any abatement when identifying at sub-paragraph (2)(b) the annual rate of any scheme pension under the scheme.

#### 16AE

- (1) In paragraphs 16AC(3) and 16AD(3), U% means the highest of—
  - (a) 5%,
  - (b) CPI% (see sub-paragraph (2)), and
  - (c) RPI% (see sub-paragraph (3)).
- (2) If the consumer prices index for September in year P is higher than the consumer prices index for September in the tax year preceding year P, CPI% is the percentage increase in the index (but is otherwise 0%).
- (3) If the retail prices index for September in year P is higher than the retail prices index for September in the tax year preceding year P, RPI% is the percentage increase in the index (but is otherwise 0%).
- (4) In this paragraph “year P” has the same meaning as in paragraph 16AC or (as the case may be) paragraph 16AD.”
- (4) In paragraph 16B (limit in post-death year)—
  - (a) in sub-paragraph (3)(c), for “amounts” substitute “uprated amounts (see sub-paragraph (6))”, and
  - (b) after sub-paragraph (5) insert—
    - “(6) The “uprated amount” of a lump sum is the amount of the lump sum increased by the higher of C% and R%, where—
      - (a) if the consumer prices index for the month in which the member dies is higher than it was for the month in which the member became entitled to the lump sum, C% is the percentage increase in the index (but is otherwise 0%), and

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- (b) if the retail prices index for the month in which the member dies is higher than it was for the month in which the member became entitled to the lump sum, R% is the percentage increase in the index (but is otherwise 0%).”
- (5) In paragraph 16C (limit in subsequent years)—
- (a) in sub-paragraph (3)(a), omit “period of”,
  - (b) in sub-paragraph (3)(b), for “subsection” substitute “ sub-paragraph ”,
  - (c) for sub-paragraphs (4) and (5) substitute—
    - “(4) The condition is that if the annual rate of a pension payable under the pension scheme to a dependant of the member is increased at any time in the period of 12 months in question—
    - (a) the dependant is at that time one of a group of at least 20 pensioner members of the pension scheme, and
    - (b) all the pensions being paid under the pension scheme to pensioner members of that group are at that time increased at the same rate.”,
  - (d) in sub-paragraph (6)—
    - (i) for “month period” substitute “ months ”, and
    - (ii) for the words after “increased by” substitute “ the permitted margin. ”,
  - (e) in sub-paragraph (8)(a), for “end of the post-death year” substitute “ member’s death ”,
  - (f) in sub-paragraph (8)(b), after “first month” insert “ ending after the start ”,
  - (g) in sub-paragraph (11), for “opening month” substitute “ month in which the member died ”, and
  - (h) omit sub-paragraphs (13) and (14).
- (6) The amendments made by this section are treated as having come into force on 6 April 2016.
- (7) The amendments made by subsections (2) to (4), so far as they relate to paragraph 16B of Schedule 28 to FA 2004, have effect where the last day of “the post-death year” (see sub-paragraph (1) of that paragraph) is 6 April 2016 or any later day.
- (8) The following amendments—
- (a) the amendments made by subsections (2) to (4), so far as they relate to paragraph 16C of Schedule 28 to FA 2004, and
  - (b) the amendments made by subsection (5),
- have effect where the last day of “the 12 months in question” (see sub-paragraph (1) of that paragraph) is 6 April 2016 or any later day.

## 22 Pension flexibility

Schedule 5 makes amendments in connection with pension flexibility.

## 23 Netherlands Benefit Act for Victims of Persecution 1940-1945

- (1) After section 642 of ITEPA 2003 insert—

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#### **“642A Netherlands Benefit Act for Victims of Persecution 1940-1945**

No liability to income tax arises on a pension, annuity, allowance or other payment provided in accordance with the provisions of the scheme established under the law of the Netherlands and known as *Wet uitkeringen vervolgingslachtoffers 1940-1945*.”

- (2) The amendment made by this section has effect for the tax year 2016-17 and subsequent tax years.



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**Changes and effects yet to be applied to the whole Act associated Parts and Chapters:**

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- Sch. 19 para. 12(5)(b) inserted by [2017 c. 32 Sch. 14 para. 49\(2\)\(c\)](#)
- Sch. 19 para. 12(5)(a) word inserted by [2017 c. 32 Sch. 14 para. 49\(2\)\(b\)](#)
- Sch. 19 para. 51(8)(b) words inserted by [2017 c. 32 Sch. 14 para. 48\(2\)](#)
- Sch. 19 para. 53(1) words inserted by [2017 c. 32 Sch. 14 para. 48\(4\)\(a\)](#)
- Sch. 19 para. 53(1) words inserted by [2017 c. 32 Sch. 14 para. 48\(4\)\(b\)](#)
- Sch. 19 para. 12(5)(a) words renumbered as Sch. 19 para. 12(5)(a) by [2017 c. 32 Sch. 14 para. 49\(2\)\(a\)](#)
- Sch. 19 para. 58(1) words substituted by [2017 c. 32 Sch. 14 para. 48\(5\)](#)
- Sch. 20 para. 1(4)(e) inserted by [2021 c. 26 Sch. 27 para. 47\(2\)](#)
- Sch. 20 para. 3(3)(d) and word inserted by [2021 c. 26 Sch. 27 para. 47\(3\)\(b\)](#)
- Sch. 20 para. 5(5) inserted by [2021 c. 26 Sch. 27 para. 47\(5\)](#)
- Sch. 22 para. 2(4B) inserted by [2021 c. 26 Sch. 27 para. 48\(2\)\(c\)](#)
- Sch. 22 para. 3(4A) inserted by [2021 c. 26 Sch. 27 para. 48\(3\)](#)