SCHEDULES

SCHEDULE 9

PENSIONS

PART 2

TAXATION OF LUMP SUMS

Amendments of Part 4 of FA 2004 (pension schemes etc)

15 Part 4 of FA 2004 (pension schemes etc) is amended as follows.

16 In section 164 (authorised member payments), in subsection (2)(c), for the words from "for the purposes of" to the end substitute "as a relevant benefit crystallisation event for the purposes of section 637Q or 637S of ITEPA 2003 (availability of individual's lump sum allowance and lump sum and death benefit allowance)."

17 (1) Section 166 (lump sum rule) is amended as follows.

(2) In subsection (1), in the lump sum rule—

(a) after paragraph (a) insert—

"(aa) a pension commencement excess lump sum,";

(b) at the end of paragraph (e) insert ", or";

(c) omit paragraphs (g) and (h).

(3) In subsection (2)—

(a) omit paragraph (za);

(b) in paragraph (a), for "any other pension commencement lump sum" substitute "a pension commencement lump sum or a pension commencement excess lump sum".

18 In section 168 (lump sum death benefit rule), in subsection (1), in the lump sum death benefit rule—

(a) at the end of paragraph (f) insert ", or";

(b) omit paragraph (i) (and the "or" before it).

19 In section 227G (when pension rights are first flexibly accessed) omit subsection (11).

20 (1) Section 228ZA (tapered reduction of annual allowance: high-income individual) is amended as follows.

(2) In subsection (4) (definition of "adjusted income"), for paragraph (e) substitute—

"(e) the amount of any lump sum death benefit which is subject to the charge to tax on pension income under Part 9 of ITEPA 2003 (pension income) in the tax year."

(3) In subsection (5) (definition of "threshold income"), for paragraph (d) substitute—

"(d) the amount of any lump sum death benefit which is subject to the charge to tax on pension income under Part 9 of ITEPA 2003 (pension income) in the tax year."

21 In section 264 (false statements etc), in subsection (1)(a), for "under this Part, or" substitute "under this Part or under Part 9 of ITEPA 2003 (pension income) on pension income to which—

"(i) any provision of Chapter 15A of that Part of that Act (lump sums under registered pension schemes) applies, or

(ii) section 579A of that Act (pension income under registered pension schemes) applies by virtue of any provision of that Chapter, or"

22 (1) Section 265 (winding-up to facilitate payment of lump sums) is amended as follows.

(2) In subsection (2) omit "or winding-up lump sum death benefits (or both)".

(3) In subsection (4) omit paragraph (b) (and the "and" before it).

23 After section 278 (market value) insert—

"**278A Disqualifying pension credits**

(1) For the purposes of this Part, a pension credit is "disqualifying" if, when the member becomes entitled to it, the person subject to the corresponding pension debit has an actual (rather than a prospective) right to payment of a pension under the relevant arrangement.

(2) The "relevant arrangement" is the arrangement to which the pension sharing order, or provision by virtue of which the member becomes entitled to the pension credit, relates.

278B Annuities and scheme pensions: meaning of "related to"

(1) For the purposes of this Part, a dependants' annuity is "related to" a lifetime annuity payable to a member of a registered pension scheme if—

(a) they are purchased either in the form of a joint life annuity or separately in circumstances in which the day on which the one is purchased is no earlier than seven days before, and no later than seven days after, the day on which the other is purchased, and

(b) the dependants' annuity will be payable to a dependant of the member.

(2) For the purposes of this Part, a nominees' annuity is "related to" a lifetime annuity payable to a member of a registered pension scheme if—

(a) they are purchased either in the form of a joint life annuity or separately in circumstances in which the day on which the one is purchased is no earlier than seven days before, and no later than seven days after, the day on which the other is purchased, and

(b) the nominees' annuity will be payable to a nominee of the member.

(3) For the purposes of this Part, a dependants' scheme pension is "related to" a scheme pension payable to a member of a registered pension scheme if—

(a) the day on which one is purchased or sums or assets are applied for its provision is no earlier than seven days before, and no later than seven days after, the day on which the other is purchased or sums or assets are applied for its provision, and

(b) the dependants' scheme pension will be payable to a dependant of the member."

24 In section 280 (abbreviations and general index), in the table in subsection (2)—

(a) at the appropriate places add—

"pension commencement excess lump sum	paragraph 3C of Schedule 29";

(b) in the entry for "related dependants' annuity" for "paragraph 3(4A) of Schedule 29" substitute "section 278B(1)";

(c) in the entry for "related nominees' annuity" for "paragraph 3(4B) of Schedule 29" substitute "section 278B(2)";

(d) in the entry for "related dependants' scheme pension" for "paragraph 3(7C) of Schedule 29" substitute "section 278B(3)".

25 Schedule 29 (authorised lump sums - supplementary) is amended in accordance with paragraphs 26 to 37.

26 (1) Paragraphs 1 to 3A (pension commencement lump sums) are amended as follows.

(2) In paragraph 1 (pension commencement lump sum)—

(a) in sub-paragraph (1)—

(i) in paragraph (b) for the words from "lifetime allowance" to the end substitute "lump sum allowance is available, and all or part or the member's lump sum and death benefit allowance is available (see paragraph 12A),";

(ii) in sub-paragraph (f) for "sub-paragraphs (4) and (4A)" substitute "sub-paragraph (4A)";

(b) omit sub-paragraphs (3A), (4) and (6).

(3) Omit paragraphs 1A and 1B (which modify the definition of "pension commencement lump sum" in relation to certain lump sums paid before 6 April 2015 and are therefore no longer of practical utility).

(4) For paragraph 2 (definition of "the permitted maximum") substitute—

"2 In paragraph 1 "the permitted maximum", in relation to a lump sum, means the lowest of the following amounts—

(a) the applicable amount in relation to the relevant pension (see paragraphs 2A to 2D);

(b) so much of the member's lump sum allowance as is available on the individual becoming entitled to the lump sum (see paragraph 12A);

(c) so much of the member's lump sum and death benefit allowance as is available on the individual becoming entitled to the lump sum (see paragraph 12A)."

(5) For paragraph 3 (definition of "the applicable amount") substitute—

"2A (1) This paragraph defines "the applicable amount" in relation to a relevant pension in a case in which the relevant pension is income withdrawal.

(2) The applicable amount is one third of the scheme pension capital value.

(3) The scheme pension capital value is (subject to sub-paragraph (4)) the aggregate of—

(a) the sums designated as available for the payment of drawdown pension on that occasion, and

(b) the market value of the assets so designated.

(4) There is to be deducted from the amount determined under sub-paragraph (3) so much (if any) of the sums and assets designated as mentioned in sub-paragraph (3)(a) or (b) as represent rights attributable to a disqualifying pension credit.

2B (1) This paragraph defines "the applicable amount" in relation to a relevant pension in a case in which the relevant pension is a lifetime annuity.

(2) The applicable amount is one third of the annuity purchase price.

(3) The annuity purchase price is (subject to sub-paragraph (4)) the aggregate of—

(a) such of the sums held for the purposes of the pension scheme, and

(b) the market value of such of the assets held for the purposes of the pension scheme,

as are applied in (or in connection with) the purchase of the lifetime annuity and any related dependants' annuity and any related nominees' annuity.

(4) There is to be deducted from the amount determined under sub-paragraph (3)—

(a) if the sums or assets applied in (or in connection with) the purchase of the annuity or any related dependants' annuity or any related nominees' annuity consist of, or include, sums or assets representing the whole or part of the member's drawdown pension fund or of the member's flexi-access drawdown fund, the aggregate of those sums and the market value of those assets, and

(b) in any case, so much (if any) of the sums or assets applied in (or in connection with) the purchase of the annuity or any related dependants' annuity or any related nominees' annuity as represents rights which are attributable to a disqualifying pension credit.

2C (1) This paragraph defines "the applicable amount" in relation to a relevant pension in a case in which the relevant pension is—

(a) a scheme pension under a defined benefits arrangement, or

(b) a collective money purchase arrangement.

(2) The applicable amount is (subject to sub-paragraph (3))—

$$\frac{A + (B \times C) - D}{4}$$

where—

A is the amount of the lump sum;

B is the relevant revaluation factor (see section 276);

C is the amount of the pension which will be payable to the member in the period of 12 months beginning with the day on which the member becomes entitled to the pension (assuming that it remains payable throughout that period at the rate at which it is payable on that day);

D is so much (if any) of A or C as represents rights which are attributable to a disqualifying pension credit.

(3) In determining C for the purposes of subsection (2) in a case in which the pension is under a public service pension scheme, any abatement of the pension is to be left out of account.

2D (1) This paragraph defines "the applicable amount" in relation to a relevant pension in a case in which the relevant pension is a scheme pension under a money purchase arrangement that is not a collective money purchase arrangement.

(2) The applicable amount is one third of the scheme pension purchase price.

(3) The scheme pension purchase price is (subject to sub-paragraph (4)) the aggregate of—

(a) such of the sums held for the purposes of the pension scheme, and

(b) the market value of such of the assets held for the purposes of the pension scheme,

as are applied in (or in connection with) the purchase or provision of the scheme pension and any related dependants' scheme pension.

(4) There is to be deducted from the amount determined under sub-paragraph (3)—

(a) if the scheme pension is funded (in whole or in part) by the application of sums or assets representing the whole or part of the member's drawdown pension fund or of the member's flexi-access drawdown fund, the aggregate of those sums and the market value of those assets, and

(b) in any case, so much (if any) of the sums and assets referred to in sub-paragraph (3)(a) and (b) as represent rights which are attributable to a disqualifying pension credit."

(6) Before paragraph 3A (anti-avoidance rule to prevent recycling of pension commencement lump sum) insert the following heading—

"Pension commencement lump sums: anti-avoidance".

(7) In paragraph 3A(5), for paragraphs (a) and (b) substitute "the amount of the lump sum".

(8) After paragraph 3A insert—

"3B (1) Sub-paragraph (2) applies if—

(a) sums or assets held for the purposes of, or representing accrued rights under, a money purchase arrangement relating to the member under a registered pension scheme ("member money purchase funds") are subject to a relevant surrender or a relevant transfer,

(b) the sole or main purpose of the relevant surrender or relevant transfer is to increase the applicable amount for the purposes of paragraph 2 on the member becoming entitled to a scheme pension, and

(c) the member becomes entitled to a scheme pension under a relevant defined benefits arrangement.

(2) The pension scheme under which the relevant defined benefits arrangement is an arrangement is to be treated as making an unauthorised payment to the member of the amount by which—

(a) the applicable amount in relation to the relevant defined benefits arrangement (as determined under paragraph 2C), exceeds

(b) what would be the applicable amount (as determined under paragraph 2D) if the arrangement were a money purchase arrangement.

(3) For the purposes of sub-paragraph (1)—

(a) member money purchase funds are subject to a "relevant surrender" if they are surrendered and, in consequence of the surrender, there is a corresponding increase in the sums or assets held for the purposes of, or representing rights under, a defined benefits arrangement relating to the member under the pension scheme (or such an arrangement is established), and

(b) member money purchase funds are subject to a "relevant transfer" if they are transferred so as to become held for the purposes of, or to represent rights under, a defined benefits arrangement relating to the member under any other registered pension scheme.

(4) In this paragraph "relevant defined benefits arrangement" means—

(a) the defined benefits arrangement mentioned in paragraph (a) or (b) of sub-paragraph (3), or

(b) any other defined benefits arrangement relating to the member (under the pension scheme or any other registered pension scheme) in the case of which any of the sums or assets held for the purposes of, or representing accrued rights under, the arrangement directly or indirectly represent sums or assets previously held for the purposes of, or representing accrued rights under, the defined benefits arrangement so mentioned."

(9) After paragraph 3B (as inserted by sub-paragraph (8)) insert—

"Pension commencement excess lump sum

3C (1) For the purposes of this Part a lump sum is a pension commencement excess lump sum if—

(a) the member becomes entitled to it in connection with becoming entitled to a relevant pension (or dies after becoming entitled to it but before becoming entitled to the relevant pension in connection with which it was anticipated that the member would become entitled to it);

(b) it is paid when none of the member's lump sum allowance is available (see paragraph 12A);

(c) it is paid within the period beginning six months before, and ending one year after, the day on which the member becomes entitled to it;

(d) it does not reduce the rate of payment of any pension to which the member has become (actually) entitled, or extinguish the member's entitlement to payment of any such pension;

(e) it is paid when the member has reached normal minimum pension age (or the ill-health condition is met); and

(f) it is not an excluded lump sum (see sub-paragraph (4)).

(2) But if a lump sum falling within sub-paragraph (1) exceeds the permitted maximum, the excess is not a pension commencement excess lump sum.

(3) In this paragraph "the permitted maximum", in relation to a lump sum, means—

$$(A \times 4) - B$$

where—

"A" is the applicable amount in relation to the relevant pension (see paragraphs 2A to 2D);

"B" is the amount of the member's lump sum and death benefit allowance that is available on the payment of the lump sum (see paragraph 12A).

(4) A lump sum is an "excluded lump sum" if—

(a) it would, apart from this paragraph, be permitted to be paid under the lump sum rule in section 166, or

(b) the pension in connection with which the member becomes entitled to it is a CMP-derived drawdown pension.

(5) In determining for the purposes of this paragraph—

(a) whether any of a member's lump sum allowance is available on the payment of a lump sum, or

(b) the amount of a member's lump sum and death benefit allowance that is available on the payment of a lump sum,

the member is treated as having already become entitled to any pension commencement lump sum that is paid to the member in connection with becoming entitled to the relevant pension."

27 (1) Paragraph 4 (serious ill-health lump sum) is amended as follows.

(2) In sub-paragraph (1)—

(a) at the end of paragraph (a) insert "and";

(b) omit paragraph (b).

(3) In sub-paragraph (2) for "in respect of which there has been no previous benefit crystallisation event" substitute "under which the member has not previously become entitled to any pension or lump sum".

(4) Omit sub-paragraph (3).

28 (1) Paragraph 4A (uncrystallised funds pension lump sum) is amended as follows.

(2) In sub-paragraph (1) omit paragraph (b).

(3) Omit sub-paragraph (2).

29 (1) Paragraph 5 (short service refund lump sum) is amended as follows.

(2) In sub-paragraph (1), for paragraph (c) substitute—

"(c) the member has not previously become entitled to any pension or lump sum under the pension scheme,".

30 (1) In paragraph 7 (trivial commutation lump sum), in sub-paragraph (1)(c), for "lifetime allowance is available" substitute "lump sum allowance is available (see paragraph 12A)".

(2) In paragraph 8 (trivial commutation lump sum: value of member's relevant crystallised pension rights on the nominated date), in sub-paragraph (1), for paragraph (b) substitute—

"(b) the amount given by the formula—

$$((A - B) \times 4) + C$$

where—

"A" is the member's lump sum allowance;

"B" is the amount of the member's lump sum allowance that is available (see paragraph 12A) on the payment of the lump sum in question;

"C" is the amount of any serious ill health lump sum already paid to the member so far as it was not chargeable to income tax."

31 In paragraph 10 (winding-up lump sum), in sub-paragraph (1)(d), for "lifetime allowance is available" substitute "lump sum allowance is available (see paragraph 12A)".

32 Omit paragraph 11 (lifetime allowance excess lump sum) and the italic heading before it.

33 Omit paragraph 11A (transitional 2013/14 lump sum) and the italic heading before it.

34 In the italic heading before paragraph 12 omit "of Part 1".

35 (1) Paragraph 12 (interpretation) is amended as follows.

(2) Omit sub-paragraphs (1A) to (4).

(3) In sub-paragraph (5), for "4A(2)" substitute "3C(2)".

36 After paragraph 12 insert—

"12A (1) In this Part of this Schedule, a reference to the amount of an individual's lump sum allowance that is available on the individual becoming entitled to a lump sum, or being paid a lump sum, is to the amount of that allowance that would be so available on the following assumption.

(2) The assumption is that the individual becoming entitled to or (as the case may be) being paid the lump sum was a relevant benefit crystallisation event within the meaning of section 637Q of ITEPA 2003 (availability of individual's lump sum allowance).

(3) In this Part of this Schedule, a reference to the amount of an individual's lump sum and death benefit allowance that is available on the individual becoming entitled to a lump sum, or being paid a lump sum, is to the amount of that allowance that would be so available on the following assumption.

(4) The assumption is that the individual becoming entitled to or (as the case may be) being paid the lump sum was a relevant benefit crystallisation event within the meaning of section 637S of ITEPA 2003 (availability of individual's lump sum and death benefit allowance)."

37 (1) In paragraph 13 (defined benefits lump sum death benefit) sub-paragraph (1)(d) is amended as follows.

(2) After "pension protection lump sum death benefit," insert "or".

(3) Omit "or winding-up lump sum death benefit."

Amendments of Part 9 of ITEPA 2003

38 Part 9 of ITEPA 2003 (pension income) is amended as follows.

39 In section 565 (structure of Part 9), for the paragraph relating to Chapter 15A substitute—

"Chapter 15A—

(a) provides for certain amounts paid under registered pension schemes in the form of lump sums to be subject to the charge to tax on pension income, and

(b) deals with exemptions from the charge to tax (whether under this Part or any other provision) in relation to certain other amounts paid under registered pension schemes in the form of lump sums."

40 (1) Section 566 (nature of charge to tax on pension income and relevant definitions) is amended as follows.

(2) In subsection (3), for "16" substitute "15A".

(3) In the table in subsection (4)—

(a) after the entry for section 633 insert—

"Section 637B	Pensions treated as arising from payment of pension commencement excess lump sums under	Chapter 15A"

registered pension schemes

(b) in the entry for section 636B, in the first column, for “636B” substitute “637G”.

(c) in the entry for section 636C—

(i) in the first column, for “636C” substitute “637N”;

(ii) in the second column omit “and winding-up lump sum death benefits”.

41 For Chapter 15A substitute—

“CHAPTER 15A

LUMP SUMS UNDER REGISTERED PENSION SCHEMES

Introduction

637 Introduction

(1) This Chapter makes provision about the income tax treatment of authorised lump sums and authorised lump sum death benefits.

(2) In this Chapter—

(a) “authorised lump sum” means a lump sum permitted by the lump sum rule in section 166 of FA 2004 to be paid by a registered pension scheme to a member of the scheme;

(b) “authorised lump sum death benefit” means a lump sum death benefit permitted by the lump sum death benefit rule in section 168 of that Act to be paid by a registered pension scheme in respect of a member of the scheme.

(3) Expressions used in this Chapter and Part 4 of FA 2004 (pensions etc) have the same meaning in this Chapter as in that Part.

Tax treatment of authorised lump sums

637A Pension commencement lump sums

No liability to income tax arises on a pension commencement lump sum paid under a registered pension scheme.

637B Pension commencement excess lump sums

A person to whom a pension commencement excess lump sum is paid under a registered pension scheme is treated as having taxable pension income for the tax year in which the payment is made equal to the amount of the lump sum.

637C Serious ill-health lump sums

(1) Subject to subsections (2) and (4), no liability to income tax arises on a serious ill-health lump sum paid under a registered pension scheme.

(2) If—

(a) a serious ill-health lump sum is paid under a registered pension scheme to a member who (at the time of the payment) is under 75, and

(b) the lump sum exceeds the permitted maximum,

section 579A (pensions) applies to the excess as it applies to any pension under a registered pension scheme.

(3) In subsection (2) “the permitted maximum”, in relation to a serious ill-health lump sum paid to a member, means so much of the member’s lump sum and death benefit allowance as is available immediately before the member becomes entitled to the lump sum (see section 637S).

(4) If a serious ill-health lump sum is paid under a registered pension scheme to a member who (at the time of the payment) is 75 or over, section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

637D Uncrystallised funds pension lump sums

(1) Subject to subsection (2), where an uncrystallised funds pension lump sum is paid under a registered pension scheme—

(a) no liability to income tax arises on 25% of the lump sum, and

(b) section 579A (pensions) applies in relation to the remainder of the lump sum as it applies to any pension under a registered pension scheme.

(2) If—

(a) an uncrystallised funds pension lump sum is paid under a registered pension scheme, and

(b) 25% of the lump sum is an amount that exceeds the permitted maximum,

section 579A (pensions) applies to the excess as it applies to any pension under a registered pension scheme.

(3) In subsection (2) “the permitted maximum”, in relation to an uncrystallised funds pension lump sum paid to a member, means the lower of the following amounts—

(a) so much of the member’s lump sum allowance as is available immediately before the member becomes entitled to the lump sum (see section 637Q);

(b) so much of the member’s lump sum and death benefit allowance as is available immediately before the member becomes entitled to the lump sum (see section 637S).

637E Short service refund lump sum

A short service refund lump paid under a registered pension scheme is subject to income tax in accordance with section 205 of FA 2004 (charge to tax on scheme administrator in respect of such a lump sum) but not otherwise.

637F Refund of excess contributions lump sums

No liability to income tax arises on a refund of excess contributions lump sum paid under a registered pension scheme.

637G Trivial commutation lump sums and winding-up lump sums

(1) Subject to subsection (2), a member of a registered pension scheme to whom—

(a) a trivial commutation lump sum, or

(b) a winding-up lump sum,

is paid under the scheme is treated as having taxable pension income for the tax year in which the payment is made equal to the amount of the lump sum.

(2) If, immediately before the lump sum is paid, the member has uncrystallised rights under any one or more arrangements under the pension scheme, the amount of the taxable pension income is reduced by the tax-free element (if any).

(3) In subsection (2) "the tax-free element" means 25% of the value of any uncrystallised rights extinguished by the lump sum.

(4) In this section "uncrystallised rights" has the same meaning as in section 212 of FA 2004; and the value for the purposes of this section of any uncrystallised rights is to be calculated in accordance with that section.

Tax treatment of authorised lump sum death benefits

637H Defined benefits lump sum death benefits

(1) Subject to subsections (2) to (6), no liability to income tax arises on a defined benefits lump sum death benefit paid under a registered pension scheme.

(2) If—

(a) a defined benefits lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,

(b) the lump sum is paid before the end of the relevant two year period, and

(c) the lump sum exceeds the permitted maximum,

section 579A (pensions) applies to the excess as it applies to any pension under a registered pension scheme.

(3) If—

(a) a defined benefits lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,

(b) the lump sum is not paid before the end of the relevant two year period, and

(c) the lump sum is paid to a qualifying person,

section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

(4) If—

(a) a defined benefits lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,

(b) the lump sum is not paid before the end of the relevant two year period, and

(c) the lump sum is paid to a non-qualifying person,

the lump sum is subject to income tax under section 206 of FA 2004 (special lump sum death benefits charge on scheme administrator) but not otherwise.

(5) If a defined benefits lump sum death benefit under a registered pension scheme is paid—

(a) in respect of a member who, on death, is 75 or over, and

(b) to a qualifying person,

section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

(6) If a defined benefits lump sum death benefit under a registered pension scheme is paid—

(a) in respect of a member who, on death, is 75 or over, and

(b) to a non-qualifying person,

the lump sum is subject to income tax under section 206 of FA 2004 (special lump sum death benefits charge on scheme administrator) but not otherwise.

(7) In this section—

“non-qualifying person” has the same meaning as in section 206 of FA 2004;

“the permitted maximum”, in relation to a defined benefits lump sum death benefit paid in respect of a member, means so much of the member’s lump sum and death benefit allowance as is available immediately before the lump sum is paid (see section 637S);

“qualifying person” means a person who is not a non-qualifying person;

“the relevant two year period” means the period of two years beginning with the day on which the scheme administrator of the scheme first knew of the member’s death or (if earlier) the day on which the scheme administrator could first reasonably have been expected to have known of it.

637I Pension protection lump sum death benefits

(1) Subject to subsections (2), (3) and (4) no liability to income tax arises on a pension protection lump sum death benefit paid under a registered pension scheme.

(2) If—

(a) a pension protection lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75, and

(b) the lump sum exceeds the permitted maximum,

section 579A (pensions) applies to the excess as it applies to any pension under a registered pension scheme.

(3) If a pension protection lump sum death benefit under a registered pension scheme is paid—

(a) in respect of a member who, on death, is 75 or over, and

(b) to a qualifying person,

section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

(4) If a pension protection lump sum death benefit under a registered pension scheme is paid—

(a) in respect of a member who, on death, is 75 or over, and

(b) to a non-qualifying person,

the lump sum is subject to income tax under section 206 of FA 2004 (special lump sum death benefits charge on scheme administrator) but not otherwise.

(5) In this section—

"non-qualifying person" has the same meaning as in section 206 of FA 2004;

"the permitted maximum", in relation to a pension protection lump sum death benefit paid in respect of a member, means so much of the member's lump sum and death benefit allowance as is available immediately before the lump sum is paid (see section 637S);

"qualifying person" means a person who is not a non-qualifying person.

637J Uncrystallised funds lump sum death benefits

(1) Subject to subsections (2) to (6), no liability to income tax arises on an uncrystallised funds lump sum death benefit paid under a registered pension scheme.

(2) If—

(a) an uncrystallised funds lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,

(b) the lump sum is paid before the end of the relevant two year period, and

(c) the lump sum exceeds the permitted maximum,

section 579A (pensions) applies to the excess as it applies to any pension under a registered pension scheme.

(3) If—

(a) an uncrystallised funds lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,
(b) the lump sum is not paid before the end of the relevant two year period, and
(c) the lump sum is paid to a qualifying person,

section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

(4) If—
(a) an uncrystallised funds lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,
(b) the lump sum is not paid before the end of the relevant two year period, and
(c) the lump sum is paid to a non-qualifying person,

the lump sum is subject to income tax under section 206 of FA 2004 (special lump sum death benefits charge on scheme administrator) but not otherwise.

(5) If an uncrystallised funds lump sum death benefit under a registered pension scheme is paid—
(a) in respect of a member who, on death, is 75 or over, and
(b) to a qualifying person,

section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

(6) If an uncrystallised funds lump sum death benefit under a registered pension scheme is paid—
(a) in respect of a member who, on death, is 75 or over, and
(b) to a non-qualifying person,

the lump sum is subject to income tax under section 206 of FA 2004 (special lump sum death benefits charge on scheme administrator) but not otherwise.

(7) In this section—

“non-qualifying person” has the same meaning as in section 206 of FA 2004;

“the permitted maximum”, in relation to an uncrystallised funds lump sum death benefit paid in respect of a member, means so much of the member’s lump sum and death benefit allowance as is available immediately before the lump sum is paid (see section 637S);

“qualifying person” means a person who is not a non-qualifying person;

“the relevant two year period” means the period of two years beginning with the day on which the scheme administrator of the scheme first knew of the member’s death or (if earlier) the day on which the scheme administrator could first reasonably have been expected to have known of it.

637K Annuity protection lump sum death benefits

(1) Subject to subsections (2), (3) and (4), no liability to income tax arises on an annuity protection lump sum death benefit paid under a registered pension scheme.

(2) If—

(a) an annuity protection lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75, and

(b) the lump sum exceeds the permitted maximum,

section 579A (pensions) applies to the excess as it applies to any pension under a registered pension scheme.

(3) If an annuity protection lump sum death benefit under a registered pension scheme is paid—

(a) in respect of a member who, on death, is 75 or over, and

(b) to a qualifying person,

section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

(4) If an annuity protection lump sum death benefit under a registered pension scheme is paid—

(a) in respect of a member who, on death, is 75 or over, and

(b) to a non-qualifying person,

the lump sum is subject to income tax under section 206 of FA 2004 (special lump sum death benefits charge on scheme administrator) but not otherwise.

(5) In this section—

"non-qualifying person" has the same meaning as in section 206 of FA 2004;

"the permitted maximum", in relation to an annuity protection lump sum death benefit paid in respect of a member, means so much of the member's lump sum and death benefit allowance as is available immediately before the lump sum is paid (see section 637S);

"qualifying person" means a person who is not a non-qualifying person.

637L Drawdown pension fund lump sum death benefits

(1) Subject to subsections (2) to (6), no liability to income tax arises on a drawdown pension lump sum death benefit paid under a registered pension scheme.

(2) If—

(a) a drawdown pension lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,

(b) the lump sum is paid before the end of the relevant two year period, and

(c) the lump sum exceeds the permitted maximum,

section 579A (pensions) applies to the excess as it applies to any pension under a registered pension scheme.

(3) If—

(a) a drawdown pension lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,

(b) the lump sum is not paid before the end of the relevant two year period, and

(c) the lump sum is paid to a qualifying person,

section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

(4) If—

(a) a drawdown pension lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,

(b) the lump sum is not paid before the end of the relevant two year period, and

(c) the lump sum is paid to a non-qualifying person,

the lump sum is subject to income tax under section 206 of FA 2004 (special lump sum death benefits charge on scheme administrator) but not otherwise.

(5) If a drawdown pension lump sum death benefit under a registered pension scheme is paid—

(a) in respect of a member who, on death, is 75 or over, and

(b) to a qualifying person,

section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

(6) If a drawdown pension lump sum death benefit under a registered pension scheme is paid—

(a) in respect of a member who, on death, is 75 or over, and

(b) to a non-qualifying person,

the lump sum is subject to income tax under section 206 of FA 2004 (special lump sum death benefits charge on scheme administrator) but not otherwise.

(7) A reference in this section to a "member", in relation to a drawdown pension lump sum death benefit under paragraph 17(2) of Schedule 29 to FA 2004 (lump sum payable on death of dependant of deceased member), is a reference to the dependant on whose death the lump sum is payable.

(8) In this section—

"non-qualifying person" has the same meaning as in section 206 of FA 2004;

"the permitted maximum", in relation to a drawdown pension lump sum death benefit paid in respect of a member, means so much of the member's lump sum and death benefit allowance as is available immediately before the lump sum is paid (see section 637S);

"qualifying person" means a person who is not a non-qualifying person;

"the relevant two year period" means the period of two years beginning with the day on which the scheme administrator of the scheme first knew of the member's death or (if earlier) the day on which the scheme administrator could first reasonably have been expected to have known of it.

637M Flexi-access drawdown lump sum death benefits

(1) Subject to subsections (2) to (6), no liability to income tax arises on a flexi-access drawdown lump sum death benefit paid under a registered pension scheme.

(2) If—

(a) a flexi-access drawdown lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,

(b) the lump sum is paid before the end of the relevant two year period, and

(c) the lump sum exceeds the permitted maximum,

section 579A (pensions) applies to the excess as it applies to any pension under a registered pension scheme.

(3) If—

(a) a flexi-access drawdown lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,

(b) the lump sum is not paid before the end of the relevant two year period, and

(c) the lump sum is paid to a qualifying person,

section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

(4) If—

(a) a flexi-access drawdown lump sum death benefit under a registered pension scheme is paid in respect of a member who, on death, is under 75,

(b) the lump sum is not paid before the end of the relevant two year period, and

(c) the lump sum is paid to a non-qualifying person,

the lump sum is subject to income tax under section 206 of FA 2004 (special lump sum death benefits charge on scheme administrator) but not otherwise.

(5) If a flexi-access drawdown lump sum death benefit under a registered pension scheme is paid—

(a) in respect of a member who, on death, is 75 or over, and

(b) to a qualifying person,

section 579A (pensions) applies to the lump sum as it applies to any pension under a registered pension scheme.

(6) If a flexi-access drawdown lump sum death benefit under a registered pension scheme is paid—

(a) in respect of a member who, on death, is 75 or over, and

(b) to a non-qualifying person,

the lump sum is subject to income tax under section 206 of FA 2004 (special lump sum death benefits charge on scheme administrator) but not otherwise.

(7) A reference in this section to a "member"—

(a) in relation to a flexi-access drawdown lump sum death benefit under paragraph 17A(2) of Schedule 29 to FA 2004 (lump sum payable on death of dependant of deceased member), is a reference to the dependant on whose death the lump sum is payable;

(b) in relation to a flexi-access drawdown lump sum death benefit under paragraph 17A(3) or (4) of Schedule 29 to FA 2004 (lump sum payable on death of nominee or successor of deceased member), is a reference to the nominee or successor on whose death the lump sum is payable.

(8) In this section—

"non-qualifying person" has the same meaning as in section 206 of FA 2004;

"the permitted maximum", in relation to a flexi-access drawdown lump sum death benefit paid in respect of a member, means so much of the member's lump sum and death benefit allowance as is available immediately before the lump sum is paid (see section 637S);

"qualifying person" means a person who is not a non-qualifying person;

"the relevant two year period" means the period of two years beginning with the day on which the scheme administrator of the scheme first knew of the member's death or (if earlier) the day on which the scheme administrator could first reasonably have been expected to have known of it.

637N Trivial commutation lump sum death benefits

A person to whom a trivial commutation lump sum death benefit is paid under a registered pension scheme is treated as having taxable pension income for the tax year in which the payment is made equal to the amount of the lump sum.

Allowances

637P Individual's lump sum allowance

An individual's "lump sum allowance" is £268,275.

637Q Availability of individual's lump sum allowance

(1) This section is about the availability of an individual's lump sum allowance on the occurrence of a relevant benefit crystallisation event ("the current event").

(2) In this section—

(a) "relevant benefit crystallisation event", in relation to an individual, means the individual becoming entitled to a relevant lump sum;

(b) "relevant lump sum" means—

(i) a pension commencement lump sum, or

(ii) an uncrystallised funds pension lump sum.

(3) If no relevant benefit crystallisation event has occurred in relation to the individual before the current event, the whole of the individual's lump sum allowance is available.

(4) Otherwise, the amount of the individual's lump sum allowance that is available is—

(a) so much of that allowance as is left after deducting the previously-used amount, or

(b) if none is left after deducting that amount, nil.

(5) For this purpose "the previously-used amount" is the aggregate of the non-taxable amounts in relation to each relevant benefit crystallisation event that has occurred in relation to the individual before the current event.

(6) In subsection (5) "non-taxable amount", in relation to a relevant benefit crystallisation event, means so much (if any) of the relevant lump sum to which the event relates as is exempt from the charge to income tax by virtue of any provision of this Chapter.

(7) A reference in this section to a relevant benefit crystallisation event is to a relevant benefit crystallisation event occurring on or after 6 April 2024.

(8) For transitional provision under which the amount of an individual's lump sum allowance available on the occurrence of a relevant benefit crystallisation event may be reduced as a result of events occurring before 6 April 2024, see paragraph 125 of Schedule 9 to FA 2024.

637R Individual's lump sum and death benefit allowance

An individual's "lump sum and death benefit allowance" is £1,073,100.

637S Availability of individual's lump sum and death benefit allowance

(1) This section is about the availability of an individual's lump sum and death benefit allowance on the occurrence of a relevant benefit crystallisation event ("the current event").

(2) In this section—

(a) "relevant benefit crystallisation event", in relation to an individual, means—

(i) the individual becoming entitled to a relevant lump sum, or
(ii) a person being paid a relevant lump sum death benefit in respect of the individual;

(b) "relevant lump sum" means—
(i) a pension commencement lump sum,
(ii) a serious ill-health lump sum, or
(iii) an uncrystallised funds pension lump sum;

(c) "relevant lump sum death benefit" means any authorised lump sum death benefit other than—
(i) a charity lump sum death benefit, or
(ii) a trivial commutation lump sum death benefit.

(3) If no relevant benefit crystallisation event has occurred in relation to the individual before the current event, the whole of the individual's lump sum and death benefit allowance is available.

(4) Otherwise, the amount of the individual's lump sum and death benefit allowance that is available is—
(a) so much of that allowance as is left after deducting the previously-used amount, or
(b) if none is left after deducting that amount, nil.

(5) For this purpose "the previously-used amount" is the aggregate of the non-taxable amounts in relation to each relevant benefit crystallisation event that has occurred in relation to the individual before the current event.

(6) In subsection (5) "non-taxable amount", in relation to a relevant benefit crystallisation event, means so much (if any) of the relevant lump sum, or relevant lump sum death benefit, to which the event relates as is exempt from the charge to income tax by virtue of any provision of this Chapter.

(7) Where more than one relevant benefit crystallisation event within subsection (2)(a)(i) occurs in relation to an individual on the same day, it is for the individual to decide the order in which they are to be treated as occurring for the purposes of this section.

(8) Where more than one relevant benefit crystallisation event within subsection (2)(a)(ii) occurs in relation to an individual, they are to be treated for the purposes of this section as occurring—
(a) immediately before the individual's death,
(b) immediately after any pension commencement lump sum to which the individual becomes entitled immediately before death by virtue of section 166(2) of FA 2004 (lump sum rule), and
(c) in such order as may be decided by the individual's personal representatives.

(9) A reference in this section to a relevant benefit crystallisation event is to a relevant benefit crystallisation event occurring on or after 6 April 2024.

(10) For transitional provision under which the amount of an individual's lump sum and death benefit allowance available on the occurrence of a relevant benefit crystallisation event may be reduced as a result of events occurring before 6 April 2024, see paragraph 126 of Schedule 9 to FA 2024.

(11) For further transitional provision that may affect the operation of this section, see paragraph 20 of Schedule 36 to FA 2004 (pensions in payment before commencement of Part 4 of FA 2004).”

Amendments of the Registered Pension Schemes (Authorised Payments) Regulations 2009

42 (1) The Registered Pension Schemes (Authorised Payments) Regulations 2009 (S.I. 2009/1171) are amended as follows.

(2) Omit regulation 3A (which relates to payments made before 6 April 2015 and is therefore no longer of practical utility).

(3) In regulation 7 (meaning of “relevant accretion”) omit paragraphs (3) and (3A).

(4) In regulation 16 (payments of arrears of pension after death) omit paragraphs (5) and (6).

(5) In regulation 17 (pension commencement lump sums based on pension errors) omit paragraphs (4) and (5).

(6) In regulation 18 (pension commencement lump sums paid in error: money purchase arrangements) omit paragraphs (4) and (5).

(7) In regulation 19 (pension commencement lump sums paid after death) omit paragraphs (2) and (3).

(8) In regulation 20 (part refund payments relating to short service), in paragraph (1) for sub-paragraph (b) substitute—

“(b) the member has not previously become entitled to any pension or lump sum under the pension scheme;”.