HM Revenue & Customs

Pensions - Capped Drawdown

Who is likely to be affected?

Individuals (drawdown pensioners) above the minimum pension age (normally 55 and over), who have a capped drawdown pension fund or a dependants' capped drawdown pension fund under a registered pension scheme.

Individuals younger than 23, who are entitled to receive a dependants' drawdown pension.

General description of the measure

All drawdown pensioners will be able to take an annual pension from their registered pension scheme up to 120 per cent of the amount of an equivalent annuity.

Policy objective

This measure supports the Government's objectives for a fairer tax system by providing more flexibility for drawdown pensioners.

Background to the measure

The Government announced on 5 December 2012 that it would increase the maximum income which drawdown pensioners can receive from their capped drawdown pension fund from 100 per cent to 120 per cent of the value of an equivalent annuity.

Detailed proposal

Operative date

The 20 per cent increase will apply for all drawdown pension years starting on or after [26 March 2013].

Current law

Pension rule 5 in section 165 Finance Act (FA) 2004 imposes a limit on the amount of drawdown pension that the drawdown pensioner may receive from their capped drawdown pension arrangement in any year. There is an equivalent limit for dependants in pension death benefit rule 4 in section 167 FA 2004.

The current limit in both cases is 100 per cent of a value called the "basis amount". The basis amount is defined in Schedule 28 to FA 2004 and in the Registered Pension Schemes (Relevant Annuities) Regulations 2006, SI2006/129.

The basis amount is the rate of income, which would be available if an individual of the same age as the drawdown pensioner were to use the whole of their drawdown pension fund to buy themselves a level single-life annuity without a guaranteed term. The basis amount is also commonly referred to as "the amount of either an 'equivalent annuity' or a 'comparable annuity'".

The value of the basis amount is calculated in accordance with tables prepared by the Government Actuary's Department (GAD). Two tables prepared by GAD are used for this purpose: one for individuals aged under 23 and one for individuals aged 23 and over.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to increase the maximum income which a drawdown pensioner with a capped drawdown pension fund can choose to receive. The maximum for a drawdown pension year will go up from 100 per cent of the basis amount to 120 per cent of the basis amount.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17
	negligible	negligible	negligible	negligible	negligible
	The measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2013.				
Economic impact	The measure is not expected to have any significant economic impacts.				
Impact on individuals and households	This measure will impact around 500,000 drawdown pensioners during the scorecard period. As a result of the change they will be entitled to receive pensions up to 20 per cent higher than would otherwise have been the case.				
Equalities impacts	The measure will have no impact on Equality and does not affect any protected characteristics.				
Impact on business including civil society organisations	The measure is expected to have a negligible one-off impact on businesses. It is not anticipated that there will be additional ongoing business costs as a result of this measure. The measure will have no impact on civil society organisations.				
Operational impact (£m) (HMRC or other)	Tax on drawdown pensions is accounted for under PAYE procedures. It is not anticipated that HMRC will incur any additional costs implementing this change. Some routine consequential changes to published guidance will be made as part of business as usual. The measure has no other impacts on the public sector.				
Other impacts	Small firms impact test: the business impacts of this measure are on drawdown providers. It is not believed that any businesses involved will fall within the criteria of a small firm for this test. Other impacts have been considered and none have been identified				

Monitoring and evaluation

The policy will be kept under review through regular communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact Samantha Skill on 03000 564149 (email:pensions.policy@hmrc.gsi.gov.uk).

1 Drawdown pensions and dependants' drawdown pensions

(1) In section 165 of FA 2004 (pension rules), in subsection (1), in pension rule 5, for "100%" substitute "120%".

(2) In section 167 of that Act (pension death benefit rules), in subsection (1), in pension death benefit rule 4, for "100%" substitute "120%".

(3) In Schedule 16 to FA 2011 (benefits under pension schemes)—

(a) in paragraph 90(2)(a), after "date" insert ", and beginning before 26 March 2013,", and

(b) in paragraph 98(2)(a), after "date" insert ", and beginning before 26 March 2013,".

(4) The amendments made by subsections (1) and (2) have effect in relation to drawdown pension years beginning on or after 26 March 2013.

(5) The amendments made by subsection (3) are treated as having come into force on 26 March 2013.

EXPLANATORY NOTE

DRAWDOWN PENSIONS AND DEPENDANTS' DRAWDOWN PENSIONS

SUMMARY

1. This clause allows all drawdown pensioners to choose to receive an authorised pension from their registered pension scheme of up to 120% of the amount of an equivalent annuity (increased from 100%).

DETAILS OF THE CLAUSE

2. Subsection (1) of the clause amends pension rule 5 in section 165 of Finance Act 2004 ('FA 2004') to increase the maximum drawdown pension payable from 100% of the basis amount to 120% of the basis amount. Section 165 defines what are authorised pensions from a registered pension scheme for tax purposes. A drawdown pension is one of the categories of authorised pension payable to a member. Pension rule 5 fixes the maximum rate of a drawdown pension. The basis amount referred to in pension rule 5 is defined in Schedule 28 to the FA 2004. It is the rate of pension which would be payable if an individual of the same age as the drawdown pensioner were to apply their pension fund to buying a level single life annuity without a guaranteed term. The basis amount is commonly referred to as the amount of "an equivalent annuity" or "a comparable annuity".

3. Subsection (2) of the clause amends pension death benefit rule 4 in section 167 of FA 2004 to increase the maximum dependants' drawdown pension payable from 100% of the basis amount to 120% of the basis amount. Section 167 defines what are authorised pension death benefits from a registered pension scheme for tax purposes. A dependants' drawdown pension is one of the categories of authorised pension death benefit payable to the dependant of a deceased member. Pension death benefit rule 4 sets the maximum rate of this pension.

4. Subsection (3) of the clause amends schedule 16 to Finance Act 2011 (FA 2011) to switch off transitional protections which are no longer needed in situations when the amendments made by this clause apply. Paragraphs 90 and 98 of Schedule 16 to FA 2011 give transitional protection from the full effect of sections 165 and 167 Finance Act 2004 to members and dependants whose current drawdown reference periods started on or after 7 April 2006. Paragraphs 90 and 98 provide for members and dependants to continue to be able to take a drawdown pension of up to 120% of the basis amount for all

drawdown pension years starting before a "relevant date" instead of their pension being restricted to 100% of the basis amount annually. The relevant date cannot be later than 5 April 2016. ,

5. Subsection (4) of the clause provides when the amendments to FA 2004 have effect.

6. Subsection (5) of the clause provides when the amendments to Finance Act 2011 have effect.

BACKGROUND

7. The clause is covered by a resolution made under the Provisional Collection of Taxes Act 1968. Under this resolution drawdown providers account for income tax under Pay As You Earn procedures before the 2013 Finance Bill receives Royal Assent where they have made payments from a drawdown pension fund which are higher than 100% of the basis amount but are not more than 120% of the basis amount in a drawdown pension year beginning on or after 26 March 2013.

8. If you have any questions about this change, or comments on the legislation, please contact Samantha Skill on 03000 564 149 (email: pensions.policy@hmrc.gsi.gov.uk).