



# What we are doing about pension liberation

Increasing numbers of pension savers are being targeted by unscrupulous companies encouraging them to access their pension savings early. This is commonly known as 'pension liberation' and has significant tax consequences. This briefing explains our approach to tackling pension liberation.

## Pensions tax relief

Pension savings in a registered pension scheme receive various tax reliefs. These reliefs are provided so that pension savings can be used to provide an income in later life for the individual and their dependants. This system is now being increasingly threatened by pension liberation.

The consequences of pension liberation can leave the individual with a greatly diminished pension income in retirement and the likelihood of them having to pay substantial tax bills and management fees to liberate the pension. We are committed to safeguarding the proper use of pension tax relief by combating pension liberation activity and making people aware of the true financial cost.

Over half an individual's pension savings can be made up of tax relief. Normally a pension cannot be accessed before the age of 55, except in certain prescribed circumstances, for example in the case of ill health.

Where pension benefits are paid early, other than in the prescribed circumstances, or a pension scheme provides a loan to a member, then this is known as an unauthorised payment. Unauthorised payments are subject to various tax charges intended to recover the tax reliefs previously given on those savings. Significant tax charges may therefore apply if pension savings are accessed prematurely.

## Pension liberation

Certain individuals and organisations are targeting savers to entice them to transfer their pension savings from their current scheme to one which allows pension liberation. The scheme to which the transfer is made then allows the individual to access their pension savings earlier than the tax rules permit. This can result in individuals losing most or all of their pension savings. Individuals who access their pension savings early will be liable to pay unauthorised payment tax charges which can be more than half of the pension savings they have accessed. They may also be liable to tax penalties.

Some promoters of schemes involved in pension liberation offer questionable investments as a means to extract value from pension savings for themselves. The tax charges may not apply to these investments but will continue to apply to anything the member receives directly or indirectly from their pension scheme, before age 55 or where it is dressed-up as a loan.

We have been working as part of a multi-agency task force which includes the Pensions Regulator and the Department for Work and Pensions to combat this activity. We are aware of growing pension industry concern and have strong links with them so we can understand and address the challenges liberation poses.

### What we are doing

Registration of a pension scheme is important because it carries benefits in terms of tax relief on contributions and investment growth. Administrators can register a scheme at any time, however, until we confirm registration, the scheme cannot benefit from the tax reliefs available. We have responsibility for the pension tax rules which cover this area. In order to register, scheme administrators must submit an online application to us.

As part of our ongoing review to strengthen processes to combat pension liberation, we have changed the way we deal with new applications to register pension schemes for tax relief. Registration will no longer be confirmed at the time an online form is submitted. In the past applications to register schemes were processed first and checked later.

The changes will allow us to conduct a detailed risk assessment before a decision is made on whether the scheme can be registered.

One of our functions is to protect the integrity of the tax relief afforded to pension savings. Increasing pension liberation activity is putting the integrity of this tax relief at risk. Transfers between pension schemes are a key component of pension liberation arrangements.

To protect the integrity of the tax relief given to pension savings, we have also changed the way we answer requests for confirmation of the receiving scheme's registration status.

We will now respond to requests for confirmation of the registration status without seeking consent from the receiving scheme.

However, we will only give this confirmation if the receiving scheme is registered, and the information we hold does not indicate a significant risk that it was set up, or is being used, to make pension liberation easier.

Otherwise, our response will set out the conditions needed for us to confirm registration status, and explain that one or both of the conditions have not been met.

The confirmation is provided to assist scheme administrators with the checks they carry out to consider whether a transfer should be made.

However, requesting this confirmation should not be the only check carried out or relied on to decide if a transfer should be made. Further checks should be undertaken.

We will continue to highlight the dangers of pension liberation by publishing information on our website about the risks involved, such as a recently added factsheet highlighting the tax consequences of pension liberation for pension savers. The link can be found at the end of this briefing.

These changes to our process are part of a continuing strategy to combat pension liberation as well as the ongoing review of the pensions tax legislation, and we will not hesitate to make further changes if necessary.

### Compliance activity

We are aware that promoters are using more sophisticated liberation models to encourage taxpayers to liberate their pension savings, including offering personal loans as well as cash incentives. We have an active programme to tackle all attempted misuse or abuse of the pension tax rules. As part of this we will continue to work to identify promoters and schemes which seek to abuse the pension tax rules. The vast majority of pension funds abide by their legal obligations but we won't hesitate to de-register a pension scheme where rules are not adhered to, and we will pursue the promoters of liberation schemes for all penalties due under the legislation.

### Preserving pension savings

We will take firm action and apply tax charges wherever there is abuse of pension tax relief – but it is far more important that individuals recognise the dangers of entering into these schemes and don't put their retirement savings at risk in the first place. We want to help make sure that individuals with pension savings are protected so that those savings are available to provide an income for the individual later in their life.

### To find out more

Our advice and guidance about pension liberation can be found at [www.hmrc.gov.uk/news/pensionliberation.htm](http://www.hmrc.gov.uk/news/pensionliberation.htm)