

**1 Pension flexibility: annuities etc**

Schedule 1 contains provision about pension annuities, and other pension, paid in respect of deceased members of pension schemes.

## SCHEDULES

### SCHEDULE 1

Section 1

#### PENSION FLEXIBILITY: ANNUITIES ETC

##### *Introductory*

- 1 Part 4 of FA 2004 is amended in accordance with paragraphs 2 to 12.

##### *Nominees' and successors' annuities to be authorised payments*

- 2 (1) Section 167(1) (the pension death benefit rules) is amended as follows.
- (2) In pension death benefit rule 3A (payments that may, exceptionally, be made to a nominee) after “other than” insert “a nominees’ annuity in respect of a money purchase arrangement or”.
- (3) In pension death benefit rule 3B (payments that may, exceptionally, be made to a successor) after “other than” insert “a successors’ annuity in respect of a money purchase arrangement or”.

##### *Nominees' and successors' annuities: definitions etc*

- 3 (1) Part 2 of Schedule 28 (interpretation of the pension death benefit rules) is amended as follows.
- (2) After paragraph 27A insert –

##### *“Nominees’ annuity*

27AA(1) For the purposes of this Part an annuity payable to a nominee is a nominees’ annuity if –

- (a) either –
- (i) it is purchased together with a lifetime annuity payable to the member and the member becomes entitled to that lifetime annuity on or after 6 April 2015, or
- (ii) it is purchased after the member’s death, the member dies on or after 3 December 2014 and the nominee becomes entitled to the annuity on or after 6 April 2015,
- (b) it is payable by an insurance company, and
- (c) it is payable until the nominee’s death or until the earliest of the nominee’s marrying, entering into a civil partnership or dying.

- (2) For the purposes of sub-paragraph (1)(a) a nominee's annuity is purchased together with a lifetime annuity if the nominee's annuity is related to the lifetime annuity.
  - (3) The Commissioners for Her Majesty's Revenue and Customs may by regulations make provision in relation to cases in which a nominee's annuity payable to a person ("the original nominee's annuity") ceases to be payable and in consequence of that—
    - (a) sums or assets (or both) are transferred from the insurance company to another insurance company and are applied—
      - (i) towards the provision of another nominee's annuity (a "new nominee's annuity") by the other insurance company, or
      - (ii) otherwise, or
    - (b) sums or assets are transferred to the relevant registered pension scheme.
  - (4) The regulations may provide that—
    - (a) in a case where a new nominee's annuity becomes payable, the new nominee's annuity is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original nominee's annuity, and
    - (b) in any other case, the relevant registered pension scheme is to be treated as making an unauthorised payment in respect of the member of an amount equal to the aggregate of the sums, and the market value of the assets, transferred.
  - (5) For the purposes of sub-paragraphs (3) and (4) a registered pension scheme is the relevant registered pension scheme if the original nominee's annuity was acquired using sums or assets held for the purposes of the pension scheme."
- (3) After paragraph 27F insert –

*"Successors' annuity*

- 27FA(1) For the purposes of this Part an annuity payable to a successor is a successor's annuity if –
- (a) the successor becomes entitled to it on or after 6 April 2015,
  - (b) it is payable by an insurance company,
  - (c) it is payable until the successor's death or until the earliest of the successor's marrying, entering into a civil partnership or dying,
  - (d) it is purchased after the death of a dependant, nominee or successor of the member ("the beneficiary"),
  - (e) it is purchased using undrawn funds, and
  - (f) the beneficiary dies on or after 3 December 2014.
- (2) For the purposes of sub-paragraph (1)(e), sums or assets held for the purposes of an arrangement after the beneficiary's death are undrawn funds if –
- (a) immediately before the beneficiary's death, they were held for the purposes of the arrangement and, as the case may

- be, represented (alone or with other sums or assets) the beneficiary's –
- (i) dependant's flexi-access drawdown fund,
  - (ii) dependant's drawdown pension fund,
  - (iii) nominee's flexi-access drawdown fund, or
  - (iv) successor's flexi-access drawdown fund,
- in respect of the arrangement, or
- (b) they arise, or (directly or indirectly) derive, from undrawn funds under paragraph (a) or from sums or assets which so arise or derive.
- (3) The Commissioners for Her Majesty's Revenue and Customs may by regulations make provision in relation to cases in which a successors' annuity payable to a person ("the original successors' annuity") ceases to be payable and in consequence of that –
- (a) sums or assets (or both) are transferred from the insurance company to another insurance company and are applied –
    - (i) towards the provision of another successors' annuity (a "new successors' annuity") by the other insurance company, or
    - (ii) otherwise, or
  - (b) sums or assets are transferred to the relevant registered pension scheme.
- (4) The regulations may provide that –
- (a) in a case where a new successors' annuity becomes payable, the new successors' annuity is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original successors' annuity, and
  - (b) in any other case, the relevant registered pension scheme is to be treated as making an unauthorised payment in respect of the member of an amount equal to the aggregate of the sums, and the market value of the assets, transferred.
- (5) For the purposes of sub-paragraphs (3) and (4) a registered pension scheme is the relevant registered pension scheme if the original successors' annuity was acquired using sums or assets held for the purposes of the pension scheme."
- (4) In section 280(2) (index of defined expressions) at the appropriate places insert –

"nominees' annuity                      paragraph 27AA of Schedule 28"

"successors' annuity                      paragraph 27FA of Schedule 28"

- (5) In paragraph 27E(4)(b) and (5) of Schedule 28 (meaning of "unused uncrystallised funds") after "not been applied towards the provision of a dependants' annuity" insert " , not been applied towards the provision of a nominees' annuity".

- (6) Regulations made before 25 December 2015 under the paragraph 27AA or 27FA inserted by this paragraph may, for cases where the transfer concerned takes place on or after 6 April 2015, include provision having effect in relation to times before the regulations are made.

*Dependants' and nominees' annuities: testing against deceased member's lifetime allowance*

- 4 (1) In section 216(1) (benefit crystallisation events and amounts crystallised) the table is amended as follows.
- (2) In the second column of the entry relating to benefit crystallisation event 4, after “any related dependants’ annuity” insert “and any related nominees’ annuity”.
- (3) After the entry relating to benefit crystallisation event 5C insert –

“5D. A person becoming entitled, on or after 6 April 2015 but before the end of the relevant two-year period, to a dependants’ annuity or a nominees’ annuity in respect of the individual if –

- (a) the annuity is purchased using (whether or not exclusively) relevant unused uncrystallised funds, and
- (b) the individual died on or after 3 December 2014

The aggregate of –

- (a) the amount of such of the sums, and
- (b) the market value of such of the assets, applied to purchase the annuity as are relevant unused uncrystallised funds”

- 5 (1) Section 217 (persons liable to lifetime allowance charge) is amended as follows.
- (2) In subsection (2A) (cases where dependant or nominee liable) after “event 5C,” insert “or by reason of a person becoming entitled to an annuity as mentioned in the description of benefit crystallisation event 5D,”.
- (3) In subsection (4A) (events 5C and 7 are “relevant post-death” events) after “benefit crystallisation event 5C” insert “, 5D”.
- 6 In Schedule 32 (supplementary provisions about benefit crystallisation events) –
- (a) in paragraph 1 (meaning of “the relevant pension schemes”: in certain cases means schemes of which the individual was a member immediately before death) after “5C” insert “or 5D”,
- (b) in paragraph 4(1) (further provision about benefit crystallisation event 4) for the words from “if” to “purchased” substitute “if –
- (a) the lifetime annuity or a related dependants’ annuity or a related nominees’ annuity is, or
- (b) the lifetime annuity and a related dependants’ annuity are, or
- (c) the lifetime annuity and a related nominees’ annuity are, or

- (d) a related dependants’ annuity and a related nominees’ annuity are, or
- (e) the lifetime annuity and a related dependants’ annuity and a related nominees’ annuity are, purchased”.
- (c) in paragraph 14B (event 5C: meaning of “relevant two-year period”), and in the heading before that paragraph, for “event 5C” substitute “events 5C and 5D”, and
- (d) in paragraph 14C(1) (event 5C: meaning of “relevant unused uncrystallised funds”), and in the heading before paragraph 14C, for “event 5C” substitute “events 5C and 5D”.

*Consequential amendments*

- 7 In section 172(6A)(b) (“benefit” in section 172 includes rights to payments under certain annuities) after “lifetime annuity or dependants’ annuity” insert “, or nominees’ annuity or successors’ annuity,”.
- 8 (1) Section 172A (surrenders of benefits and rights) is amended as follows.
  - (2) In subsection (1)(aa) (surrender of rights to payments under certain annuities triggers operation of subsection (2)) after “lifetime annuity or dependants’ annuity” insert “, or nominees’ annuity or successors’ annuity,”.
  - (3) In subsection (9A)(b) (references to benefits include references to rights to payments under certain annuities) after “lifetime annuity or dependants’ annuity” insert “, or nominees’ annuity or successors’ annuity,”.
- 9 (1) Section 172B (increase of rights of connected person on death) is amended as follows.
  - (2) In subsection (2)(aa) (relevant member includes person who has rights to payments under certain annuities) after “lifetime annuity or dependants’ annuity” insert “, or nominees’ annuity or successors’ annuity,”.
  - (3) In subsection (7A) (section does not apply to certain increases in rights) after “dependants’ annuity” (in both places) insert “, nominees’ annuity, successors’ annuity”.
  - (4) In subsection (7B)(b) (“benefit” in section 172B includes rights to payments under certain annuities) after “lifetime annuity or dependants’ annuity” insert “, or nominees’ annuity or successors’ annuity,”.
- 10 (1) Schedule 28 (interpretation of the pension rules and pension death benefit rules) is amended as follows.
  - (2) In paragraph 3(2B)(a) (power to make regulations about cases where lifetime annuity ceases to be payable by insurance company) after “dependants’ annuity” insert “, nominees’ annuity”.
  - (3) In paragraph 6(1B)(a) (power to make regulations about cases where short-term annuity ceases to be payable by insurance company) after “dependants’ annuity” insert “, nominees’ annuity”.
- 11 (1) Paragraph 3 of Schedule 29 (interpretation of the lump sum rule: meaning of “the applicable amount”) is amended in accordance with sub-paragraphs (2) to (4).

- (2) In sub-paragraph (4) (amount applied to purchase certain annuities) after “any related dependants’ annuity” insert “and any related nominees’ annuity”.
- (3) After sub-paragraph (4A) (when a dependants’ annuity is related to a lifetime annuity) insert—
  - “(4B) For the purposes of this Part a nominees’ annuity is related to a lifetime annuity payable to a member of a registered pension scheme—
    - (a) if 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.”
- (4) In sub-paragraph (5) (deductions in calculating applicable amount) after “any related dependants’ annuity” (in both places) insert “or any related nominees’ annuity”.
- (5) In section 280(2) (index of defined expressions) at the appropriate place insert—

“related nominees’ annuity      paragraph 3(4B) of Schedule 29”

- 12 In paragraph 15(2)(a) of Schedule 29 (uncrystallised funds lump sum death benefit is sum paid in respect of funds not spent on certain annuities and other pensions) after “lifetime annuity,” insert “a nominees’ annuity,”.
- 13 In consequence of paragraph 6(b) of this Schedule, omit paragraph 32 of Schedule 10 to FA 2005.

*Income tax on annuities for dependants, nominees and successors: registered pension schemes*

- 14 (1) Chapter 5A of Part 9 of ITEPA 2003 (pensions under registered pension schemes) is amended as follows.
  - (2) In section 579A(1) (section applies to pensions under registered pension schemes, subject to subsection (2) and section 579CZA) for “section 579CZA” substitute “sections 579CZA to 579CZC”.
  - (3) For section 579CZA(5)(b) (exemption from section 579A overridden where drawdown pension paid before 6 April 2015) substitute—
    - “(b) before 6 April 2015—
      - (i) any payment of dependants’ income withdrawal in respect of the deceased member was made to the person from, or
      - (ii) any payment in respect of the deceased member was made to the person of a dependants’ short-term annuity purchased using sums or assets out of, the person’s dependant’s drawdown pension fund in respect of a money purchase arrangement under a registered pension scheme, and”.

(4) After section 579CZA insert –

**“579CZB Exemption for beneficiaries’ annuities in some cases**

- (1) Section 579A does not apply to a dependants’ annuity, or nominees’ annuity, payable to a person if –
  - (a) it is paid in respect of a deceased member of a registered pension scheme who had not reached the age of 75 at the date of the member’s death,
  - (b) the member died on or after 3 December 2014,
  - (c) either –
    - (i) the annuity was purchased using unused drawdown funds or unused uncrystallised funds, or
    - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity that was payable to the person by that other company, and was a dependants’ annuity or nominees’ annuity (as the case may be) purchased as mentioned in sub-paragraph (i) or this sub-paragraph, ceasing to be payable,
  - (d) in a case where the annuity is purchased as mentioned in paragraph (c)(i) and using (whether or not exclusively) unused uncrystallised funds, the person became entitled to it before the end of the period of two years beginning with the earlier of –
    - (i) the day on which the scheme administrator first knew of the member’s death, and
    - (ii) the day on which the scheme administrator could first reasonably have been expected to know of the death,
  - (e) in a case where the annuity is purchased as mentioned in paragraph (c)(ii) and the prior annuity purchased as mentioned in paragraph (c)(i) was purchased using (whether or not exclusively) unused uncrystallised funds, the person become entitled to that prior annuity before the end of the period of two years specified in paragraph (d), and
  - (f) no payment of the annuity, and no payment of any other annuity that in the particular case has been purchased as mentioned in paragraph (c)(i) or (ii), is made before 6 April 2015.
- (2) Section 579A does not apply to a successor’s annuity payable to a person if –
  - (a) it is paid in respect of a deceased member of a registered pension scheme,
  - (b) it is paid on the subsequent death of a dependant, nominee or successor of the member (“the beneficiary”),
  - (c) the beneficiary had not reached the age of 75 at the date of the beneficiary’s death,
  - (d) the beneficiary died on or after 3 December 2014,
  - (e) either –
    - (i) the annuity was purchased using undrawn funds, or



- (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity that was payable to the person by that other company, and was a successors' annuity purchased as mentioned in sub-paragraph (i) or this sub-paragraph, ceasing to be payable, and
  - (f) no payment of it, and no payment of any other annuity that in the particular case has been purchased as mentioned in paragraph (e)(i) or (ii), is made before 6 April 2015.
- (3) Section 579A does not apply to a dependants' annuity or nominees' annuity payable to a person if –
  - (a) it is paid in respect of a deceased member of a registered pension scheme who had not reached the age of 75 at the date of the member's death,
  - (b) the member died on or after 3 December 2014,
  - (c) the annuity –
    - (i) was purchased together with a lifetime annuity payable to the member, or
    - (ii) was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity that was payable to the person by that other company, and was a dependants' annuity or nominees' annuity (as the case may be) purchased as mentioned in sub-paragraph (i) or this sub-paragraph, ceasing to be payable, and
  - (d) no payment of the annuity, and no payment of any other annuity that in the particular case has been purchased as mentioned in paragraph (c)(i) or (ii), is made before 6 April 2015.
- (4) Section 579A does not apply to payments to a person of a lifetime annuity if –
  - (a) the payments are payable to the person under pension rule 2 (see section 165 of FA 2004),
  - (b) either –
    - (i) a member of a registered pension scheme was entitled to be paid the annuity immediately before the member's death, or
    - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity to which there was entitlement as mentioned in sub-paragraph (i), or which was purchased as mentioned in this sub-paragraph, ceasing to be payable,
  - (c) the member had not reached the age of 75 at the date of the member's death,
  - (d) the member died on or after 3 December 2014, and
  - (e) any payment of the annuity made before 6 April 2015, and any payment made before 6 April 2015 of any other annuity that in the particular case is one to which there is entitlement

as mentioned in paragraph (b)(i) or which was purchased as mentioned in paragraph (b)(ii), is made to the member.

- (5) Paragraph 27E(3) to (5) of Schedule 28 to FA 2004 (meaning of “unused drawdown funds” and “unused uncrystallised funds”) apply for the purposes of subsection (1).
- (6) Paragraph 27FA(2) of Schedule 28 to FA 2004 (meaning of “undrawn funds”) applies for the purposes of subsection (2)(e).
- (7) For the purposes of subsection (3)(c), a dependants’ annuity or nominees’ annuity is purchased together with a lifetime annuity if the dependants’ annuity or nominees’ annuity (as the case may be) is related to the lifetime annuity, and paragraph 3(4A) and (4B) of Schedule 29 to FA 2004 (meaning of “related”) apply for the purposes of this subsection.
- (8) For the purposes of this section, a person becomes entitled to an annuity when the person first acquires an actual (rather than a prospective right) to receive the annuity.

#### **579CZC Exemption for beneficiaries’ short-term annuities in some cases**

- (1) Section 579A does not apply to a dependants’ short-term annuity or a nominees’ short-term annuity paid to a person if –
  - (a) it is paid in respect of a deceased member of a registered pension scheme who had not reached the age of 75 at the date of the member’s death,
  - (b) the member died on or after 3 December 2014, and
  - (c) the annuity was purchased using sums or assets out of the person’s –
    - (i) dependant’s drawdown pension fund,
    - (ii) dependant’s flexi-access drawdown fund, or
    - (iii) nominee’s flexi-access drawdown fund,
 in respect of a money purchase arrangement under a registered pension scheme.
- (2) Section 579A does not apply to a successors’ short-term annuity paid to a person if –
  - (a) it is paid in respect of a deceased beneficiary of a deceased member of a registered pension scheme where the beneficiary had not reached the age of 75 at the date of the beneficiary’s death,
  - (b) the beneficiary died on or after 3 December 2014, and
  - (c) the annuity was purchased using sums or assets out of the person’s successor’s flexi-access drawdown fund in respect of a money purchase arrangement under a registered pension scheme,
 and here “beneficiary” means dependant, nominee or successor.

- (3) Subsection (1) is subject to the following provisions of this section.
- (4) Section 579A does apply to payments on or after 6 April 2015 to a person of a dependants’ short-term annuity payable in respect of a deceased member of a registered pension scheme and purchased using sums or assets out of the person’s dependant’s drawdown

- pension fund in respect of a money purchase arrangement under a registered pension scheme (“the drawdown fund”) if before 6 April 2015 –
- (a) any payment of the annuity was made,
  - (b) any payment was made of any other dependant’s short-term annuity purchased using sums or assets out of –
    - (i) the drawdown fund, or
    - (ii) any fund represented (to any extent) by the drawdown fund, or
  - (c) any payment of dependants’ income withdrawal was made from –
    - (i) the drawdown fund, or
    - (ii) any fund represented (to any extent) by the drawdown fund.
- (5) Section 579A does apply to payments to a person of a dependants’ short-term annuity payable in respect of a deceased member of a registered pension scheme and purchased using sums or assets out of the person’s dependant’s flexi-access drawdown fund in respect of a money purchase arrangement under a registered pension scheme (“the new fund”) if –
- (a) any of the sums or assets that make up the new fund –
    - (i) became newly-designated dependant funds under paragraph 22A(2)(b) of Schedule 28 to FA 2004 or as a result of the operation of any of paragraphs 22B to 22D of that Schedule, or
    - (ii) arise, or (directly or indirectly) derive, from any such newly-designated funds or from sums or assets that to any extent so arise or derive,
  - (b) before 6 April 2015 –
    - (i) any payment of dependants’ income withdrawal in respect of the deceased member was made to the person from, or
    - (ii) any payment in respect of the deceased member was made to the person of a dependants’ short-term annuity purchased using sums or assets out of,  
the person’s dependant’s drawdown pension fund in respect of a money purchase arrangement under a registered pension scheme, and
  - (c) any of the sums or assets that made up that fund at the time of the payment make up, or are represented by sums or assets that to any extent make up, the new fund.
- (6) Where relevant unused uncrystallised funds –
- (a) are designated on or after 6 April 2015 as available for the payment of dependants’ drawdown pension or nominees’ drawdown pension, and
  - (b) as a result of the designation make up (to any extent) a person’s dependant’s flexi-access drawdown fund or nominee’s flexi-access drawdown fund in respect of a money purchase arrangement under a registered pension scheme, but

- (c) are not so designated before the end of the relevant two-year period,  
section 579A does apply to payments to the person of a dependants' short-term annuity or nominees' short-term annuity if any of the sums or assets used to purchase the annuity represent, at the time of the purchase, the whole or any part of those relevant unused uncrystallised funds.
- (7) In this section –
- “dependant”, “nominee” and “successor” have the meaning given (respectively) by paragraphs 15, 27A and 27F of Schedule 28 to FA 2004,
  - “dependant’s drawdown pension fund”, “dependant’s flexi-access drawdown fund”, “nominee’s flexi-access drawdown fund” and “successor’s flexi-access drawdown fund” have the meaning given (respectively) by paragraphs 22, 22A, 27E and 27K of Schedule 28 to FA 2004,
  - “dependants’ short-term annuity”, “dependants’ income withdrawal”, “nominees’ short-term annuity” and “successors’ short-term annuity” have the meaning given (respectively) by paragraphs 20, 21, 27C and 27H of Schedule 28 to FA 2004,
  - “money purchase arrangement” has the meaning given by section 152 of FA 2004, and
  - “the relevant two-year period”, in relation to relevant unused uncrystallised funds held for the purposes of a money purchase arrangement relating to a deceased individual under a registered pension scheme, means the period of two years beginning with the earlier of the day on which the scheme administrator first knew of the individual’s death and the day on which the scheme administrator could first reasonably have been expected to know of it.
- (8) For the purposes of this section, sums or assets held after the death of a member of a registered pension scheme for the purposes of a money purchase arrangement relating to the member under the scheme are “relevant unused uncrystallised funds” if –
- (a) they are unused uncrystallised funds, and
  - (b) the member had not reached the age of 75 at the date of the member’s death.
- (9) Paragraph 27E(4) and (5) of Schedule 28 to FA 2004 (meaning of “unused uncrystallised funds”) apply for the purposes of subsection (8)(a).”
- (5) The amendments made by this paragraph have effect in relation to pension paid on or after 6 April 2015.

*Income tax on annuities for dependants, nominees and successors: foreign pension schemes*

- 15 (1) Chapter 4 of Part 9 of ITEPA 2003 (foreign pensions) is amended as follows.
- (2) In section 573 (foreign pensions to which section 573 applies) after subsection (2D) insert –

“(2E) Sections 573A and 573B provide for this section not to apply in some cases to pension within section 574(1)(a) (annuities).”

(3) After section 573 insert –

**“573A Exemption for beneficiaries’ annuities in some cases**

- (1) Section 573 does not apply to an annuity payable to a person if –
  - (a) it is paid in respect of a deceased member of an overseas pension scheme, or relevant non-UK scheme, who had not reached the age of 75 at the date of the member’s death,
  - (b) it would, if the scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by subsection (8), be a dependants’ annuity or nominees’ annuity,
  - (c) the member died on or after 3 December 2014,
  - (d) either –
    - (i) the annuity was purchased using sums or assets that would, if the scheme were a registered pension scheme, be unused drawdown funds or unused uncrystallised funds, or
    - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity –
      - (a) that was payable to the person by that other insurance company,
      - (b) that was purchased as mentioned in sub-paragraph (i) or this sub-paragraph, and
      - (c) that would have been a dependants’ annuity or nominees’ annuity (as the case may be) if the scheme had been a registered pension scheme,  
ceasing to be payable, and
  - (e) no payment of the annuity, and no payment of any other annuity that in the particular case has been purchased as mentioned in paragraph (d)(i) or (ii), is made before 6 April 2015.
- (2) Section 573 does not apply to an annuity payable to a person if –
  - (a) it is paid in respect of a deceased member of an overseas pension scheme or relevant non-UK scheme,
  - (b) it is paid on the subsequent death of an individual who would, if the scheme were a registered pension scheme, be a dependant, nominee or successor of the member (“the beneficiary”),
  - (c) it would, if the scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by subsection (8), be a successors’ annuity,
  - (d) the beneficiary had not reached the age of 75 at the date of the beneficiary’s death,
  - (e) the beneficiary died on or after 3 December 2014,
  - (f) either –

- 
- (i) the annuity was purchased using sums or assets that would, if the scheme were a registered pension scheme, be undrawn funds, or
  - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity –
    - (a) that was payable to the person by that other insurance company,
    - (b) that was purchased as mentioned in sub-paragraph (i) or this sub-paragraph, and
    - (c) that would have been a successors’ annuity if the scheme had been a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by subsection (8),  
 ceasing to be payable, and
  - (g) no payment of it, and no payment of any other annuity that in the particular case has been purchased as mentioned in paragraph (f)(i) or (ii), is made before 6 April 2015.
- (3) Section 573 does not apply to an annuity payable to a person if –
- (a) it is paid in respect of a deceased member of an overseas pension scheme, or relevant non-UK scheme, who had not reached the age of 75 at the date of the member’s death,
  - (b) it would, if the scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by subsection (8), be a dependants’ annuity payable to a dependant of the member or a nominees’ annuity payable to a nominee of the member,
  - (c) the member died on or after 3 December 2014,
  - (d) the annuity –
    - (i) was purchased together with an annuity payable to the member that would, if the scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by subsection (8), have been a lifetime annuity, or
    - (ii) was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity –
      - (a) that was payable to the person by that other insurance company, and
      - (b) that would, if the scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by subsection (8), have been a dependants’ annuity or nominees’ annuity (as the case may be) purchased as mentioned in sub-paragraph (i) or this sub-paragraph,  
 ceasing to be payable, and
  - (e) no payment of the annuity, and no payment of any other annuity that in the particular case has been purchased as mentioned in paragraph (d)(i) or (ii), is made before 6 April 2015.

- (4) Section 573 does not apply to payments to a person of an annuity if –
- (a) either –
    - (i) a member of an overseas pension scheme, or relevant non-UK scheme, was entitled to be paid the annuity immediately before the member’s death, or
    - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity to which there was entitlement as mentioned in sub-paragraph (i), or which was purchased as mentioned in this sub-paragraph, ceasing to be payable,
  - (b) the payments would, if the scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by subsection (8), be –
    - (i) payments of a lifetime annuity, and
    - (ii) payable to the person under pension rule 2 (see section 165 of FA 2004),
  - (c) the member had not reached the age of 75 at the date of the member’s death,
  - (d) the member died on or after 3 December 2014, and
  - (e) any payment of the annuity made before 6 April 2015, and any payment made before 6 April 2015 of any other annuity that in the particular case is one to which there is entitlement as mentioned in paragraph (a)(i) or which was purchased as mentioned in paragraph (a)(ii), is made to the member.
- (5) Paragraph 27E(3) to (5) of Schedule 28 to FA 2004 (meaning of “unused drawdown funds” and “unused uncrystallised funds”) apply for the purposes of subsection (1).
- (6) Paragraph 27FA(2) of Schedule 28 to FA 2004 (meaning of “undrawn funds”) applies for the purposes of subsection (2)(f).
- (7) For the purposes of subsection (3)(d), an annuity is purchased together with another if they are purchased –
- (a) in the form of a joint life annuity, or
  - (b) 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.
- (8) In this section “insurance company” means –
- (a) an insurance company as defined by section 275 of FA 2004, or
  - (b) a person –
    - (i) whose normal business includes the activity of providing annuities,
    - (ii) who carries on that activity in a country or territory outside the United Kingdom, and
    - (iii) whose carrying on of that activity in any particular country or territory outside the United Kingdom –
      - (a) is regulated in that country or territory, or

- (b) is lawful under the law of that country or territory because it is regulated in another country or territory,  
and for this purpose an activity is regulated in a country or territory if it is regulated by the government of that country or territory or by a body established under the law of that country or territory for the purpose of regulating the carrying-on of the activity.
- (9) In this section “lifetime annuity”, “dependant”, “dependants’ annuity”, “nominee”, “nominees’ annuity”, “successor” and “successors’ annuity” have the meaning given (respectively) by paragraphs 3, 15, 17, 27A, 27AA, 27F and 27FA of Schedule 28 to FA 2004.

### **573B Exemption for beneficiaries’ short-term annuities in some cases**

- (1) Section 573 does not apply to an annuity paid to a person if—
- (a) it is paid in respect of a deceased member of an overseas pension scheme, or a relevant non-UK scheme, who had not reached the age of 75 at the date of the member’s death,
  - (b) the person would, if that scheme were a registered pension scheme, be a dependant or nominee of the member,
  - (c) the annuity was purchased using sums or assets held for the purposes of a money purchase arrangement under an overseas pension scheme or relevant non-UK scheme, and those sums or assets would if that scheme were a registered pension scheme form the whole or part of the person’s—
    - (i) dependant’s drawdown pension fund,
    - (ii) dependant’s flexi-access drawdown fund, or
    - (iii) nominee’s flexi-access drawdown fund,
 in respect of the arrangement,
  - (d) the annuity would, if the scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by section 573A(8), be a dependants’ short-term annuity or nominees’ short-term annuity (as the case may be), and
  - (e) the member died on or after 3 December 2014.
- (2) Section 573 does not apply to an annuity payable to a person if—
- (a) it is paid in respect of a deceased individual (“the beneficiary”) who had not reached the age of 75 at the date of the beneficiary’s death,
  - (b) the beneficiary would have been a dependant, nominee or successor of a deceased member of an overseas pension scheme, or relevant non-UK scheme, if that scheme had been a registered pension scheme,
  - (c) the person would, if that scheme were a registered pension scheme, be a successor of the member,
  - (d) the annuity was purchased using sums or assets out of a fund held for the purposes of a money purchase arrangement under an overseas pension scheme or relevant non-UK scheme and would, if that scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had



- the meaning given by section 573A(8), be a successors' short-term annuity purchased using sums or assets out of the person's successor's flexi-access drawdown fund in respect of the arrangement, and
- (e) the beneficiary died on or after 3 December 2014.
- (3) Subsection (1) is subject to the following provisions of this section.
- (4) Section 573 does apply to payments on or after 6 April 2015 to a person of an annuity payable in respect of a deceased member of an overseas pension scheme, or relevant non-UK scheme, if –
- (a) the annuity is purchased using sums or assets held for the purposes of a money purchase arrangement under an overseas pension scheme or relevant non-UK scheme,
  - (b) the annuity would, if that scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by section 573A(8), be a dependants' short-term annuity,
  - (c) the annuity was purchased using sums or assets out of a fund that would, if that scheme were a registered pension scheme, be the person's dependant's drawdown pension fund in respect of the arrangement (“the drawdown fund”), and
  - (d) before 6 April 2015 –
    - (i) any payment of the annuity was made,
    - (ii) any payment was made to the person of any other annuity purchased using sums or assets out of the drawdown fund or out of any fund represented (to any extent) by the drawdown fund, or
    - (iii) any payment was made to the person out of the drawdown fund, or out of any fund represented (to any extent) by the drawdown fund, of any pension that would be dependants' income withdrawal if the fund concerned were held for the purposes of a registered pension scheme.
- (5) Section 573 does apply to payments to a person of an annuity payable in respect of a deceased member of an overseas pension scheme or relevant non-UK scheme if –
- (a) the annuity was purchased using sums or assets held for the purposes of a money purchase arrangement under an overseas pension scheme or relevant non-UK scheme and would, if that scheme were a registered pension scheme and “insurance company” in Part 4 of FA 2004 had the meaning given by section 573A(8), be a dependants' short-term annuity,
  - (b) the annuity was purchased using sums or assets out of a fund (“the new fund”) that would, if that scheme were a registered pension scheme, be the person's dependant's flexi-access drawdown fund in respect of the arrangement,
  - (c) before 6 April 2015 –
    - (i) any payment of pension in respect of the deceased member was made to the person from a fund held for the purposes of a money purchase arrangement under an overseas pension scheme, or relevant non-

UK scheme, that would be a payment of dependants' income withdrawal from the person's dependant's drawdown pension fund in respect of the arrangement if the scheme were a registered pension scheme, or

- (ii) any payment in respect of the deceased member was made to the person of an annuity purchased using sums or assets out of a fund held for the purposes of a money purchase arrangement under an overseas pension scheme, or relevant non-UK scheme, that would be a payment of a dependants' short-term annuity purchased using sums or assets out of the person's dependant's drawdown pension fund in respect of the arrangement if the scheme were a registered pension scheme, and
- (d) any of the sums or assets that made up the fund mentioned in paragraph (d)(i) or (ii) make up, or are represented by sums or assets that to any extent make up, the new fund.

(6) In this section –

“dependant”, “nominee” and “successor” have the meaning given (respectively) by paragraphs 15, 27A and 27F of Schedule 28 to FA 2004,

“dependant's drawdown pension fund”, “dependant's flexi-access drawdown fund”, “nominee's flexi-access drawdown fund” and “successor's flexi-access drawdown fund” have the meaning given (respectively) by paragraphs 22, 22A, 27E and 27K of Schedule 28 to FA 2004,

“dependants' short-term annuity”, “dependants' income withdrawal”, “nominees' short-term annuity” and “successors' short-term annuity” have the meaning given (respectively) by paragraphs 20, 21, 27C and 27H of Schedule 28 to FA 2004, and

“money purchase arrangement” has the meaning given by section 152 of FA 2004.”

- (4) The amendments made by this paragraph have effect in relation to pension paid on or after 6 April 2015.

*Exemption from tax under Part 9 of ITEPA 2003 not to give rise to tax under other provisions*

- 16 In section 393B(2)(a) of ITEPA 2003 (tax on benefits under employer-financed retirement benefit schemes: “relevant benefits” do not include benefits charged to tax under Part 9) after “charged to tax under Part 9 (pension income)” insert “, or that would be charged to tax under that Part but for section 573(2A) or (2B), 573A or 573B”.

## Explanatory note

### Pensions flexibility: annuities etc

#### Summary

1. This clause and Schedule amend the existing pension tax rules in Part 4 of Finance Act 2004 around who can receive payments from an annuity on the death of a member. The changes allow anyone including non-dependants to receive these payments. The Schedule also amends the Income Tax (Earnings and Pensions) Act 2003 to allow payments of these beneficiaries' annuities to be tax-free on the death of an individual before age 75. These changes are similar to those made in respect of payments of income withdrawal from a drawdown fund on the death of an individual in the Taxation of Pensions Act 2014.

#### Details of schedule

2. Paragraph 2 amends section 167(1) of Finance Act 2004 (FA04) as amended by the Taxation of Pensions Act 2014 (TOPA14), to allow nominees, (as defined in paragraph 27A of Schedule 28 to FA04 as inserted by TOPA14), and successors, (as defined in paragraph 27F of Schedule 28 to FA04 as inserted by TOPA14), to receive as an authorised pension death benefit, payments of annuities from money purchase arrangements, in consequence of the death of a member.
3. Paragraph 3 amends Part 2 of Schedule 28 to FA04 (Schedule 28). Part 2 of Schedule 28 provides the details of the various authorised pension death benefits that may be paid on the death of a member or the death of a beneficiary of the member.
4. Paragraph 3(2) inserts new paragraph 27AA into Schedule 28 which provides the conditions that must be met for the payment of a nominees' annuity on the death of a member to be an authorised pension death benefit.
5. New paragraph 27AA(1) and (2) provides that to be a nominees' annuity it can be purchased either as a joint life annuity with the members' lifetime annuity on or after 6 April 2015 or after the member's death providing the member died on or after 3 December 2014 (the day these changes were announced) and the nominee did not become entitled to the annuity before 6 April 2015. A nominee will from 6 April 2015 be able to receive pension death benefits under changes made by TOPA14. Therefore a nominee cannot become entitled to any pension death benefit before 6 April 2015. Paragraph 27AA(1) also provides that the annuity must be payable by an insurance company and the circumstances when it can cease before the death of the nominee.
6. New paragraph 27AA(3) to (5) provide a power for regulations to be made in connection with the transfer of the sums and assets that were used to provide the nominees'

annuity to another insurance company to provide a new nominees' annuity. The regulations may provide the circumstances when the new nominees' annuity is treated as if it were the original nominees' annuity and when the transfer will be an unauthorised payment.

7. Paragraph 3(3) inserts new paragraph 27FA into Schedule 28 which provides the conditions that must be met for the payment of a successors' annuity on the death of a dependant, a nominee or a previous successor to be an authorised pension death benefit.
8. New paragraph 27FA(1) provides that to be a successors' annuity it must be purchased after the member's death providing this was on or after 3 December 2014 and the successor cannot become entitled to the annuity before 6 April 2015. A successor will from 6 April 2015 be able to receive pension death benefits under changes made by TOPA14. Therefore a successor cannot become entitled to any pension death benefit before 6 April 2015. Paragraph 27FA(1) also provides that the annuity must be purchased using undrawn funds, as defined in new paragraph 27FA(2), payable by an insurance company and the circumstances when it can cease before the death of the successor.
9. New paragraph 27FA(2) defines undrawn funds as funds that come from either a dependant's, a nominees or a previous successors' drawdown and had not been drawn down at the time of that earlier beneficiary's death.
10. New paragraph 27FA(3) to (5) provide a power for regulations to be made in connection with the transfer of the sums and assets that were used to provide the successors' annuity to another insurance company to provide a new successors' annuity. The regulations may provide the circumstances when the new successors' annuity is treated as if it were the original successors' annuity and when the transfer will be an unauthorised payment.
11. Paragraph 3(4) amends the index of definitions in section 280 of FA04 to include a nominees' annuity and a successors' annuity.
12. Paragraph 3(5) amends paragraph 27E of Schedule 28 as inserted by TOPA14 (nominee's flexi-access drawdown fund) to provide that for funds to be uncrystallised for the purposes of paragraph 27E they must also not have been used to provide a nominees' annuity.
13. Paragraph 3(6) provides that regulations made under this paragraph can have retrospective effect where the transfer concerned occurs on or after 6 April 2015, providing that the regulations are made before 25 December 2015.
14. Paragraph 4 amends section 216 of FA04 which provides when a benefit crystallisation event (BCE) occurs and the value of that BCE which is tested against the individual's lifetime allowance.
15. Paragraph 4(2) amends BCE4 which occurs when a member becomes entitled to a lifetime annuity, to provide that the value of the BCE4 includes any nominees' annuity purchased as a joint annuity with the member's lifetime annuity.

16. Paragraph 4(3) inserts new BCE5D into section 216 of FA04. A BCE5D occurs when a person becomes entitled to a dependants' or a nominees' annuity on or after 6 April 2015 in respect of the death of a member on or after 3 December 2014, and the sums and assets used to purchase that annuity include relevant unused uncrystallised funds as defined in paragraph 14C(1) of Schedule 32 to FA04 (Schedule 32), as inserted by TOPA14. The amount of any BCE5D is the total of the relevant unused uncrystallised funds used to purchase the dependants' or nominees' annuity.
17. Paragraph 5 amends section 217 of FA04 to provide that where the entitlement to a dependants' or a nominees' annuity arises on or after 6 April 2015 using relevant unused uncrystallised funds and therefore a BCE5D occurs, then if as a consequence there is a lifetime allowance charge arising, the liability for that charge rests with the recipient of the annuity.
18. Paragraph 6 makes a number of amendments to Schedule 32 which provides further information about BCEs, as a consequence of the changes made by paragraph 4 of this Schedule to section 216 of FA04.
19. Paragraphs 7 to 13 make further consequential changes to Part 4 of FA04 in connection with this Schedule.
20. Paragraph 7 amends section 172(6A)(b) of FA04 to provide that the assignment of a nominees' annuity or a successors' annuity is an unauthorised payment unless it meets certain prescribed conditions sets out in section 172.
21. Paragraph 8 amends section 172A of FA04. Paragraph 8(2) amends subsection (1)(aa) to provide that the surrender of a nominees' annuity or a successors' annuity is an unauthorised payment unless it meets certain conditions sets out in section 172A. Paragraph 8(3) amends subsection (9A)(b) which defines 'benefits to which a person has an entitlement' for the purposes of section 172A, so that this also includes nominees' and successors' annuities.
22. Paragraph 9 amends section 172B of FA04 to provide that where there is an increase in the pension rights of a connected member following the death of an individual with a nominees' annuity or a successors' annuity, this is an unauthorised payment unless it meets certain conditions sets out in section 172B.
23. Paragraph 10 amends paragraphs 3(2B) and 6(1B) of Schedule 28 to provide that the regulation making powers under these paragraphs which relate to where an annuity ceases to be payable by an insurance company, also include respectively, the payment of a nominees' annuity and the payment of a successors' annuity.
24. Paragraph 11 amends paragraph 3 of Schedule 29 to FA04 (Schedule 29), which provides how to calculate the maximum tax-free lump sum, known as a pension commencement lump sum, when a member becomes entitled to a pension from a money purchase arrangement.

25. Paragraph 11(2) provides that the value of any related nominees' annuity purchased with a lifetime annuity can be used in determining the maximum pension commencement lump sum that can be paid.
26. Paragraph 11(3) inserts new sub-paragraph (4B) which provides that a nominees' annuity is related to a lifetime annuity when it is purchased as part of a joint-life lifetime annuity or within seven days of the lifetime annuity being purchased and is payable to the nominee.
27. Paragraph 11(4) amends paragraph 3(5) to provide that where a lifetime annuity that has a related nominees' annuity is purchased from a drawdown fund, the amount of that nominees' annuity is not taken into account when calculating the maximum pension commencement lump sum that can be paid.
28. Paragraph 12 amends paragraph 15(2)(a) of Schedule 29 to provide that an uncrystallised funds lump sum death benefit cannot be paid from funds that have been used to purchase a nominees' annuity.
29. Paragraph 13 omits paragraph 32 of Schedule 10 to Finance Act 2005 as the amendments it made to paragraph 4(1) of Schedule 32 are replaced by those in paragraph 5(1) of this Schedule.
30. Paragraph 14 amends Chapter 5A of Part 9 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) which prescribes how payments of pensions from registered pension schemes are taxed.
31. Paragraph 14(2) amends section 579A(1) of ITEPA, to provide that section 579A does not apply, where new section 579CZB or new section 579CZC of ITEPA apply, as inserted by paragraph 14(4). In these circumstances the annuity payment is not subject to tax.
32. Paragraph 14(3) amends section 579CZA(5)(b) of ITEPA as inserted by TOPA 14 to provide that the circumstances when this subsection applies and that the payment of dependants' income withdrawal from a dependants' drawdown pension fund is taxable, is extended to include where there is a payment of dependants' short-term annuity from that dependants' drawdown pension fund prior to 6 April 2015.
33. New section 579CZB(1) provides circumstances when a dependants' annuity or a nominees' annuity can be paid to them tax-free. Under section 579CZB(1) these annuities can be paid tax-free where the member died on or after 3 December 2014 and before age 75, and no payment to that beneficiary was made before 6 April 2015 in connection with the annuity. In addition, if it was purchased using unused uncrystallised funds the entitlement to the annuity must arise within the relevant two-year period as set out in new subsection (1)(d).
34. New section 579CZB(2) provides that a successors' annuity can be paid tax-free where the previous beneficiary died on or after 3 December 2014 and before age 75, and no payment to the successor was made before 6 April 2015 in connection with the annuity.

35. New section 579CZB(3) provides that a dependants' annuity or a nominees' annuity can also be paid tax-free to a beneficiary, where it was purchased with the member's lifetime annuity, and the member died on or after 3 December 2014 and before age 75, and no payment to that beneficiary was made before 6 April 2015 in connection with the annuity.
36. New section 579CZB(4) provides that the payments to a beneficiary of a lifetime annuity after the death of a member can be made tax-free if the pension payments meet the conditions in section 165(1) for such a payment to continue after the death of the member for a guaranteed period and that the member died on or after 3 December 2014 and before age 75, and no payment to that beneficiary was made before 6 April 2015 in connection with the annuity.
37. New section 579CZB(5) provides that the meaning of unused drawdown funds and unused uncrystallised funds for the purposes of section 579CZB(1) of ITEPA are as set out in paragraph 27E(3) to (5) of Schedule 28 as inserted by TOPA14.
38. New section 579CZB(6) provides that the meaning of undrawn funds for the purposes of section 579CZB(2)(e) of ITEPA is as set out in paragraph 27FA(2) of Schedule 28 as inserted by this Schedule.
39. New section 579CZB(7) and (8) provide further definitions for the purposes of section 579CZB of ITEPA.
40. New section 579CZC provides circumstances when payments of short-term annuities to beneficiaries can be made tax-free.
41. New section 579CZC(1) provides circumstances when a dependants' short-term annuity or a nominees' short-term annuity bought from a drawdown fund can be paid to them tax-free. Under section 579CZC(1) these annuities can be paid tax-free where the member died on or after 3 December 2014 and before age 75. This is subject to subsections (4) to (6).
42. New section 579CZC(2) provides circumstances when a successors' short-term annuity bought from a drawdown fund can be paid to a beneficiary tax-free. Under section 579CZC(2) these annuities can be paid tax-free where the previous beneficiary died on or after 3 December 2014 and before age 75.
43. New section 579CZC(4) to (6) provides further conditions that must be met for a payment to be tax-free under new subparagraph (1). Subparagraph (4) provides that if there is any payment before 6 April 2015 to a dependant in connection with the dependant's drawdown pension fund under which the short-term annuity was purchased, then all payments will be taxable.
44. New section 579CZC(5) provides that if there is any payment before 6 April 2015 to a dependant in connection with the dependant's flexi-access drawdown fund under which the short-term annuity was purchased, then all payments will be taxable.

45. New section 579CZC(6) provides that if the dependants' or nominees' short-term annuity is purchased using funds from a drawdown fund that were not designated into that drawdown fund within a two-year period of the member's death as defined in subsection (7), then the annuity payments will be taxable.
46. New section 579CZC(7) to (9) provide meanings for the terms used in new section 579CZC.
47. Paragraph 15 amends Chapter 4 of Part 9 of ITEPA which provides how foreign pensions are taxed in the UK.
48. Paragraph 15(2) inserts new subsection (2E) into section 573 of ITEPA which provides that where either new section 573A or new section 573B of ITEPA apply, then section 573 does not apply.
49. Paragraph 15(3) inserts new sections 573A and 573B into ITEPA.
50. New section 573A of ITEPA provides circumstances when an annuity can be paid tax-free to a beneficiary under an overseas pension scheme or a relevant non-UK scheme ('RNUKS'). These circumstances are similar to those for payments of annuities to beneficiaries purchased directly with funds from UK registered pension schemes. Therefore where an annuity could have been paid tax free under new section 579CZB of ITEPA as inserted by paragraph 14 of this Schedule had it been paid from an insurance company from sums and assets from a registered pension scheme, then it can be paid tax free from the overseas pension scheme or RNUKS if paid in similar circumstances.
51. New section 573A(1) provides the circumstances when a beneficiaries' annuity paid in respect of funds from an overseas pension scheme or an RNUKS is exempt from UK tax where the annuity relates to the death of a member on or after 3 December 2014 and before age 75.
52. New section 573A(2) provides the circumstances when a beneficiaries' annuity paid in respect of funds from an overseas pension scheme or an RNUKS is exempt from UK tax where the annuity relates to the death of a previous beneficiary on or after 3 December 2014 and before age 75.
53. New section 573A(3) provides the circumstances when a beneficiaries' annuity bought with a members' annuity in respect of funds from an overseas pension scheme or an RNUKS is exempt from UK tax where the annuity relates to the death of a member on or after 3 December 2014 and before age 75.
54. New section 573A(4) provides the circumstances when a guaranteed annuity that is payable after the death of the member to a beneficiary and paid in respect of funds from an overseas pension scheme or an RNUKS is exempt from UK tax where the annuity relates to the death of a member on or after 3 December 2014 and before age 75.



55. New section 573A(5) to (7) and (9) provide meanings of various terms used in this section.
56. New section 573A(8) provides the meaning of insurance company for the purposes of this section and extends the meaning in section 275 of FA04 which is used for UK registered pension schemes to include persons resident outside the UK who are regulated under the laws of their country of residence to provide annuities.
57. New section 573B provides circumstances when a short-term annuity can be paid tax-free to a beneficiary under an overseas pension scheme or a relevant non-UK scheme ('RNUKS'). These circumstances are similar to those for payments of short-term annuities to beneficiaries purchased directly with funds from UK registered pension schemes. Therefore where an annuity could have been paid tax free under new section 579CZC of ITEPA as inserted by paragraph 14 of this Schedule had it been paid from an insurance company from sums and assets from a registered pension scheme, then it can be paid tax free from the overseas pension scheme or RNUKS if paid in similar circumstances.
58. New section 573B(1) provides the circumstances when a beneficiaries' short-term annuity paid in respect of funds from an overseas pension scheme or an RNUKS is exempt from UK tax where the annuity relates to the death of a member on or after 3 December 2014 and before age 75. This is subject to new section 573B(4) and 5.
59. New section 573B(2) provides the circumstances when a beneficiaries' short-term annuity paid in respect of funds from an overseas pension scheme or an RNUKS is exempt from UK tax where the annuity relates to the death of a previous beneficiary on or after 3 December 2014 and before age 75.
60. New section 573B(4) provides circumstances when section 573B(1) does not apply and the short-term annuity is taxable as there had been a payment to the dependant out of the funds from which the short-term annuity was purchased prior to 6 April 2015.
61. New section 573B(5) provides circumstances when section 573B(1) does not apply and the short-term annuity is taxable as there had been a payment to the beneficiary out of the funds from which the short-term annuity was purchased prior to 6 April 2015.
62. New section 573B(6) provides meanings of various terms used in this section.
63. Paragraph 16 amends section 393(2)(b) of ITEPA to provide that a foreign pension that is not chargeable to UK tax under section 573 of ITEPA, because of new sections 573A or 573B or the amendments made to section 573 by TOPA 14 will not be chargeable to UK tax as an EFRBS under section 393 of ITEPA.

### **Background note**

64. The changes made by this clause and Schedule were announced on 3 December 2014 at the 2014 Autumn Statement and are supplementary to the changes made in the Taxation of Pensions Act 2014 which received Royal Assent on 17 December 2014. TOPA 14 provides that individuals aged 55 or over could access their money purchase pension savings as they choose from 6 April 2015. Individuals will therefore be able to take as little or as much as they want each year from their tax relieved pension savings. TOPA14 also makes a number of changes in connection with what benefits can be paid on the death of a member and how those using drawdown. It also provides that any payment of a drawdown pension death benefit can be paid tax-free, where the member dies before age 75, or where there are unused funds in the beneficiaries' drawdown at the time of their death, these can be paid as a tax-free drawdown to a further beneficiary, if the earlier beneficiary died before age 75.

65. The changes made by this clause and Schedule extend the provisions in TOPA14 relating to drawdown payments on the death of the member so that they also apply to annuity payments on the death of the member.

66. If you have any questions about this change, or comments on the legislation, please contact Paul Cottis on 03000 564209 (email: [pensions.policy@hmrc.gsi.gov.uk](mailto:pensions.policy@hmrc.gsi.gov.uk)).