HMRC Pension Schemes Services
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Newsletter

Contents

1. Taxation of Pensions Bill

The Government announced at Budget 2014 proposals to allow people aged 55 and above, from April 2015, access to their money purchase pension savings as they wish, with payments subject to their marginal rate of income tax.

The required changes to the tax legislation are set out in the Taxation of Pensions Bill which was introduced into the House of Commons on 14 October 2014. The Bill will not become law until it has passed through Parliament and receives Royal Assent. Information about the Bill and its progress through Parliament can be found below.

Taxation of Pensions Bill 2014-15 — UK Parliament

In addition you may wish to see the following documents:

Tax Information and Impact Note - the TIIN for Pension Flexibility can be found on pages 212 to 220.

Draft guidance on clauses for the Taxation of Pensions Bill

2. Pension statements and the annual allowance
Pension providers should have issued annual allowance pension statements for the 2013 to 2014 tax year to all registered pension scheme members contributing more than £50,000 per year to a pension scheme. The issue of these statements is a legislative requirement of Finance Act 2011.

Pension Scheme members can use the online tool to help check whether they need to calculate their annual allowance tax liability, even if they haven't received a pension statement.
Find more information including links to calculators and tools

An annual allowance charge is due where an individual exceeds the annual allowance in any tax year and does not have sufficient unused annual allowance to carry forward from previous tax years. This means that the individual needs to complete a Self Assessment return declaring an annual allowance charge.
Further information on carry forward can be found at
http://www.hmrc.gov.uk/pensionschemes/calc-aa.htm

3. Pension Flexibility
From April 2015, the new rules around pension flexibility will allow more individuals to opt to take one off or irregular payments rather than receiving a fixed regular income from their pension fund. There will be a number of options around how pension funds can be accessed. This could be one or more payments a year for a number of years, several payments a year over a shorter timeframe or the full value of the fund could be taken in one payment.

Regardless of the form in which these payments are taken, they will be taxed as pension income and the normal PAYE rules will apply to them.

Pension Flexibility: Flexible access

People will be counted as flexibly accessing their pension if they receive any of the following on or after 6 April 2015:

- A payment from a flexi-access drawdown fund, including a payment from a capped drawdown fund that would breach the cap
- An uncrystallised funds pension lump sum (UFPLS)
- A payment under a flexible annuity contract
- A payment of a money purchase scheme pension where the scheme has fewer than 11 other pensioner members and they became entitled to the scheme pension on or after 6 April 2015
- A stand-alone lump sum from a money purchase arrangement where the individual was entitled to primary protection but not enhanced protection, that is where Circumstance A in article 25B(2) of the Taxation of Pension Schemes (Transitional Provisions) Order 2006 applies.

In addition any person who had a valid notification for flexible drawdown before 6 April 2015, will be deemed to have flexibly accessed their rights at the start of 6 April 2015.

Pension Flexibility: PAYE

Normal PAYE rules will apply to these payments. Where the fund is not extinguished with the first payment it will be treated as an ongoing PAYE source.

If a member has a P45 from a previous source/employment dated on or after 6 April in the current year, the scheme administrator should operate the code on the P45 on a Month 1 basis. HM Revenue & Customs (HMRC) will then issue a tax code to operate against future payments.

If a scheme administrator already makes payments to a member and has a tax code for those payments, the tax code should only be used for additional payments if the payments are being made at the same time. If more than one payment in a month is made and the same tax code is operated against each of those payments it could give the benefit of the tax allowances and rate bands twice.

In all other circumstances, including where individuals have a P45 from the previous tax year, the scheme administrator should use the Emergency Code on a Month 1 basis against the first payment and HMRC will issue a tax code to operate against future payments. The Emergency Code for the 2015 to 2016 tax year will be 1060L.

Scheme administrators who already operate a tax code against one payment stream under one PAYE reference, cannot use the same tax code against a second payment stream under a separate PAYE reference. Emergency Code on a Month 1 basis must be operated against the new payment stream until HMRC issues a tax code to operate against future payments.

Where the fund is extinguished the scheme administrator must issue a P45 which will enable the member to claim any tax refund that might be due in-year. Where a member decides to receive their money over more than one payment for example in five annual payments, the P45 should only be issued once the final payment is made.

Pension flexibility: In-year repayments
HMRC have now agreed a process for members to claim an in-year repayment in circumstances where funds have been fully extinguished. This process will mirror the current in-year trivial commutation repayment process.

Here are two scenarios to illustrate how the process will work:

Scenario 1: Member has no other existing PAYE/Pension income or is only in receipt of State Retirement Pension

If all of the pension fund is withdrawn

- The scheme administrator deducts tax from the payment using Emergency Code on a Month 1 basis.
- The member can contact HMRC after the payment has been received to claim a refund (in-year) by completing a Repayment Claim Form P50 and HMRC will follow the existing repayment processes to refund any overpaid tax to the member.
- Where no contact/repayment request is made HMRC will automatically review the position after the end of the tax year and issue a tax calculation to the member detailing any over or underpayment of tax.

If part of the pension fund is withdrawn

- The scheme administrator will initially deduct tax from the payment using Emergency Code on a Month 1 basis.
- HMRC will provide the scheme administrator with a code number which will be operated against the next payment to ensure the correct tax deductions are made to the date of that payment and facilitate any appropriate refund of overpaid tax from the first payment.
- Where no further payment is taken within the tax year HMRC will automatically review the position after the end of the tax year and issue a tax calculation to the member detailing any over or underpayment of tax.

Scenario 2: Member has one or more existing employments and/or multiple pensions

If all of the pension fund is withdrawn

- The scheme administrator will initially deduct tax from the payment using Emergency Code on a Month 1 basis or the Tax Code from the member's P45.
- The member can contact HMRC after the payment has been received to claim a refund (in year) by completing a Repayment Claim Form P53 and HMRC will follow the existing repayment process to refund any overpaid tax.
- Where no contact/repayment request is made HMRC will automatically review the position after the end of the tax year and issue a tax calculation to the customer detailing any over or underpayment of tax.

If part of the pension fund is withdrawn

- The scheme administrator will initially deduct tax from the payment using Emergency Code on a Month 1 basis or the Tax Code from the member's P45. HMRC will provide the scheme administrator with a code number which will be operated against the next payment to ensure the correct tax deductions are made to the date of that payment and facilitate any appropriate refund of tax overpaid from the first payment.
- Where no further payment is taken within the tax year HMRC will automatically review the position after the end of the tax year and issue a tax calculation to the member detailing any over or underpayment of tax

Pension Flexibility: RTI
If a scheme administrator is making a payment for the first time and there is no existing PAYE scheme, they will need to set one up. A new real time information (RTI) data item (168) will be introduced to report these payments from April 2015. Scheme administrators should use this new data item if their payroll software allows. This data item is mandatory from April 2016.

All payments that are:

- From a flexi-access drawdown fund, including a payment from a capped drawdown fund that would breach the cap

- An uncrystallised funds pension lump sum (UFPLS)
- Under a flexible annuity contract
- From a money purchase scheme pension where the scheme has fewer than 11 other pensioner members and they became entitled to the scheme pension on or after 6 April 2015
- Stand-alone lump sums from a money purchase arrangement where the individual was entitled to primary protection but not enhanced protection, that is where Circumstance A in article 25B(2) of the Taxation of Pension Schemes (Transitional Provisions) Order 2006 applies

must be flagged under RTI. This includes if a separate arrangement triggers the money purchase annual allowance (MPAA). Even if a transfer is received from a scheme that already has the data item set, the recipient scheme should set the data item as soon as any payment in the list above is made.

Where the fund is exhausted in one payment, the scheme administrator must enter an end date on the RTI Full Payment Submission (FPS) and issue a P45 which will enable the member to claim any tax refund that might be due in-year.

Where a member decides to receive their money over more than one payment for example in five annual payments, the end date should only be entered on the FPS and a P45 issued once the final payment is made.

If a payment that is currently amalgamated under PAYE, is made up of one payment that does trigger the MPAA and one payment that doesn't, a single payment can be made but the data item **must still be set** on the RTI FPS.

If part of the fund that is used to make an amalgamated payment is transferred, as long as the remaining part of the payment does not fall in to any of the payment categories listed above, the data item **should not be set** on the RTI FPS.

Similarly, if the payment is a dependant's pension, including from a dependants flexi-access drawdown fund, the data item **should not be set** on the RTI FPS.

If a member has both money purchase and defined benefits (DB) rights within the same scheme and a payment, for example an UFPLS, extinguishes the money purchase rights, an end date (for the money purchase rights) should be entered on the RTI FPS only if

- the DB rights have not yet come into payment or
- the DB rights have come into payment but are being dealt with under a different PAYE reference.

If the money purchase and DB rights are being dealt with under one PAYE reference, then the scheme administrator should not enter an end date (for the money purchase rights) on the FPS. Nor should they provide a P45. However, the data item **should be removed** from future RTI FPS submissions.

Pension Flexibility: Reporting Requirements
To ensure that members and scheme administrators know when a member is subject to the MPAA, a number of new reporting requirements are being introduced.

Where a member first flexibly accesses their pension savings, the scheme administrator must provide the member with a statement confirming the date the first payment occurred and setting out what they must do. They will be required to do this within 31 days of the flexible access occurring. If the member (or another scheme administrator) has already informed the scheme administrator that they have flexibly accessed another scheme then the scheme administrator does not need to provide the member with a statement.

Members then need to tell any other pension scheme that they are an active member of, that they have flexibly accessed their pension savings, but excluding any DB only schemes. This notification must be provided within 91 days of receiving the statement or within 91 days of becoming an active member, whichever is the later.

When making a transfer, if a transferring scheme has been notified by a member that they also have flexibly accessed rights elsewhere or the member has flexibly accessed their rights in that scheme, the scheme administrator will be required to notify the receiving scheme of the date they believe the first flexible access occurred. This notification must be made within 31 days of the transfer, or if later, within 31 days from the date the scheme administrator became aware that the member had flexibly accessed their pension rights.

Where a scheme receives a transfer for a member who has already flexibly accessed their rights there is no requirement for the new scheme administrator to provide the member with a statement. In addition, there is no requirement for the scheme administrator to notify HMRC.

There will also be a new requirement for scheme administrators to provide individuals who are subject to the MPAA with a pensions savings statement if their money purchase savings, which will include savings in certain hybrid arrangements, exceed £10,000 in that particular scheme.

When a member uses funds from a flexi-access drawdown fund to buy an annuity or scheme pension from an insurance company, the scheme administrator will be required to inform the insurance company providing that scheme pension or lifetime annuity. This extends the information that must already be provided to insurance companies where payments are made from drawdown funds, to include flexibly accessed funds.

More detailed information on the new reporting requirements can be found in Part 6 of Schedule 1 to the Taxation of Pensions Bill.

Pension Flexibility: PAYE treatment of trivial commutation and small pots lump sums

From April 2015 only defined benefits (DB) pension schemes will be able to make trivial commutation payments. The current 'basic rate' PAYE regime will remain unchanged so that pension providers will continue to deduct tax at the basic rate from these lump sums before paying them.

The tax treatment of payments of small pots lump sums will continue unchanged. They will continue to be payable from both money purchase and DB pension funds and pension providers will continue to deduct tax at the basic rate from these lump sums before paying them.

Pension Flexibility: Guidance

More detailed guidance will be provided in the New Year.

HMRC Pension Schemes Services
December 2014

If you have any comments on this article or further questions on pension flexibility please email pensions.businessdelivery@hmrc.gsi.gov.uk

4. Relief at source: RPSCOM100(Z) and annual returns of individual information

Some pension schemes operating relief at source have still not submitted their annual return of individual information or RPSCOM100(Z) for the 2013 to 2014 tax year.

This is a reminder that failure to submit this return will result in any subsequent interim repayments claims being suspended pending successful submission of the completed RPSCOM100(Z).

You can find more information on relief at source repayments and the member information we may ask for relating to relief at source, in the Registered Pension Schemes Manual.

If you have any difficulties in submitting this or need any help with the information we require please contact pensions.businessdelivery@hmrc.gsi.gov.uk

5. The Annual Allowance Order
The draft Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 2015 has been published along with draft guidance.

The Finance Act 2004 (Registered Pension Schemes and Annual Allowance Charge) (Amendment) Order 2015

This includes a range of changes to ensure that the annual allowance legislation works as intended.

The changes include provisions to ensure that pension scheme administrators do not normally have to test deferred benefit rights against the annual allowance, and to address unintended outcomes for the 'scheme pays' facility as well as the treatment of certain transfers of pension pots.

We have published draft guidance to explain these changes and the different times from which the changes will take effect. The draft guidance is in the form of new pages and highlighted amendments to existing pages of the Registered Pension Scheme Manual (RPSM). It is intended that a final version of these amendments will be issued closer to the time that the Order takes effect.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/387122/AA-order-draft-guidance.pdf

6. The QROPS re-notification process – delayed until 6 April 2016.
The start of the QROPS re-notification process is being delayed until 6 April 2016. This will allow recognised overseas pension scheme (ROPS) scheme managers to be clear on what information they need to provide HMRC and how a scheme may meet the conditions to be a ROPS from 6 April 2015.

To be a QROPS, scheme managers must notify HMRC that the scheme meets the conditions to be ROPS. When scheme managers make this notification they must provide certain information to HMRC confirming how the scheme meets the conditions to be a ROPS.

Legislation was introduced last year to take effect from 1 April 2015, requiring scheme managers to re-notify HMRC of their ROPS status every five years from the date that HMRC gives the scheme manager their QROPS number. As part of this re-notification process the scheme manager must tell HMRC how the scheme continues to meet the conditions to be a ROPS. Scheme managers can re-notify at any time in the 6-month period before the re-notification is due, so from the beginning of October 2015 in some cases.

RPSM13104085 provides further information about the QROPS re-notification process.
RPSM13104085 - Technical pages: international: QROPS after 5 April 2012: re-notifying QROPS status

The conditions a scheme has to satisfy if it is to be a QROPS are under consideration in the light of the increased flexibility in taking benefits available to registered pension schemes. Any changes are due to take effect from 6 April 2015.