Explanatory Note

Clause 23 and Schedule 4: Pensions: annual allowance

Summary

1. The amendments to Schedule 4 provide further administrative easements for scheme administrators of pension schemes for the transitional period during 2015-16 when pension input periods are being aligned with the tax year. They will have effect from 8 July 2015.

Details of the amendments

2. Amendments 14 to 16 amend paragraph 6 of Schedule 4 which inserts new section 228C into Finance Act (FA) 2004. These amendments ensure that where an individual flexibly accessed their pension rights prior to 9 July 2015 in a pension input period that ended before that date so that the individual is subject to the money purchase annual allowance rules, their money purchase annual allowance is based on the higher £20,000 that applies for 2015-16 rather than the usual £10,000. This ensures that such an individual is not subject to any additional tax charges.

3. Amendments 17 to 21 amend paragraph 9 of Schedule 4 which inserts new section 237ZA into FA 2004.

4. Amendments 17 and 18 insert new subsections (6A) to (6C) which apply where an individual became a deferred member of a pension arrangement in a pension input period that ended between 6 April 2015 and 7 July 2015, and remains a deferred member for the remainder of 2015-16. Where this applies their pension input amount for the post-alignment tax year will be nil.

5. Amendment 19 inserts new subsection (11A) which applies where an individual takes all their benefits from an arrangement before 9 July 2015. Where this applies their pension input amount for the post-alignment tax year will be nil. As a consequence, all savings in that arrangement will be tested against the annual allowance for the pre-alignment tax year.

6. Amendments 20 and 21 are consequential to amendment 17 and amend the conditions in new section 237ZA(12) which provides when subsections 13 and 14 apply.

Background note

7. At Summer Budget 2015 it was announced that a tapered annual allowance for pension savings would be introduced from April 2016. The necessary changes for this are included as clause 23 and Schedule 4. As part of the changes pension input periods will be aligned with

the tax year from April 2016 to make it easier for individuals to work out whether their pension savings have exceeded the annual allowance.

8. To prevent any retrospective tax charges, this change required transitional rules to apply from Budget Day for all existing pension input periods. To help scheme administrators, the transitional rules also included a number of easements intended to make the transition simpler and reduce burdens. These amendments ensure that these easements work as intended.