Explanatory Note

Clause 21: Pensions: special lump sum death benefits charge

Summary

1. This amendment ensures that there continues to be no test against the lifetime allowance on a payment from a defined benefits arrangement in a registered pension scheme in respect of a member who died before age 75 if it is taxable because it was not paid within a two-year period. The change has effect for defined benefit lump sum death benefits paid on or after 6 April 2016.

Details of the amendment

2. Amendment 13 inserts a new subsection. This amends paragraph 16 of Schedule 32 to Finance Act 2004 which sets out which lump sum death benefits are relevant lump sum death benefits and are tested against the member's lifetime allowance as a benefit crystallisation event 7. The amendment means that a defined benefits lump sum death benefit is only tested against the lifetime allowance if it will be paid tax-free, that is, if it is paid where the member died before age 75 and is paid within a two-year period. This prevents a potential double charge to tax.

Background note

3. Clause 21 makes the tax system fairer by reducing the tax payable on taxable lump sum death benefits when an individual dies age 75 or above with pension savings in a registered pension scheme.

4. This amendment removes the potential for a lifetime allowance tax charge where a defined benefits lump sum death benefit is taxable, even though it is paid in respect of an individual who dies under age 75, because the scheme administrator did not pay the lump sum within two years of becoming aware of the individual's death. This prevents the amount that exceeds the lifetime allowance being taxed twice.