

Clause 5: Beneficiaries of tax-exempt employer-provided pension benefits

Summary

1. Employers often provide death in service and retirement benefits to employees. This clause will amend the tax exemption which concerns employer paid premiums into life assurance products and employer contributions to certain overseas pension schemes. Currently, premiums and contributions are only tax exempted if the named beneficiary is the employee or a member of the employee's family or household. This clause will allow the named beneficiary to be any individual or registered charity.

Details of the clause

2. The clause introduces amendments to Chapter 9 of Part 4 of the Income Tax (Earning and Pensions) Act 2003 (ITEPA).
3. Subsection 1 amends section 307(2) to widen the scope of the exemption to allow the employee to name any individual, or a charity, as the beneficiary of the employee's death in service or retirement benefits. The employee will not be liable to income tax as a benefit in kind on contributions paid in these circumstances.

Background note

4. When an employer provides for death in service benefits through a life assurance policy or provides retirement benefits through a qualifying relevant overseas pension scheme, the employee will usually name a beneficiary to receive any payment due upon their death and may be able to name a beneficiary to receive their retirement benefit. Prior to this provision premiums paid into these schemes by the employer are tax exempt if the named beneficiary of the employee's death or retirement benefit is the employee, a member of the employee's family or a member of their household. The current tax definitions of family and household only cover: spouse, civil partners, parents, children and dependents, domestic staff and the employee's guests.
5. This clause modernises the exemption to ensure the tax charge remains relevant and fair. Extending the exemption to include any named individual as beneficiary allows the employee to nominate their preferred recipient irrespective of their relationship to the employee in law. This ensures that employees throughout the workforce are treated fairly and proportionately with employees in marriages or with close family. The exemption will also allow employees to nominate a registered charity, which is consistent with existing government policy of providing tax relief on charitable donations.

6. If you have any comments on or questions about this change, please contact the HMRC Employment Income Team at the email address: employmentincome.policy@hmrc.gsi.gov.uk.

