

Clause 1 and Schedule 1: Pension schemes: collective money purchase benefits

Summary

1. This clause and Schedule set out the tax treatment of collective money purchase arrangements and benefits, a new type of pension provision introduced by the Pension Schemes Act 2020. These provisions have effect for collective money purchase benefits on a date to be set out by HM Treasury regulations.

Details of the clause

2. Clause 1 introduces Schedule 1, which sets out how collective money purchase arrangements and benefits will be taxed.

Details of the Schedule

3. Paragraph 1 introduces amendments to Part 4 of the Finance Act 2004 (FA 2004).
4. Paragraph 2 amends section 152 of FA 2004.
5. Sub-paragraph 2 inserts the new term “collective money purchase benefits” into section 152(2) of FA 2004.
6. Sub-paragraph 3 inserts new subsection 3A into section 152 of FA 2004. New subsection 3A defines a collective money purchase arrangement as a money purchase arrangement that provide collective money purchase benefits.
7. Sub-paragraph 4 amends section 152(5) of FA 2004, this ensures that collective money purchase benefits cannot be cash balance benefits.
8. Sub-paragraph 5 inserts new subsection 5A into section 152 of FA 2004. New subsection 5A defines collective money purchase benefits as benefits within Part 1 or 2 of the Pension Schemes Act 2020.
9. Sub-paragraphs 6 and 7 amend the meaning of ‘hybrid arrangement’ to include the option of collective money purchase benefits.
10. Sub-paragraph 8 inserts new subsection 10 into section 152 of FA 2004. New subsection 10 specifically defines the term ‘varieties of benefits’ and includes collective money purchase benefits.
11. Paragraph 3 amends section 165(1) of FA 2004 to set out what pension benefits a

collective money purchase arrangement can provide.

12. Sub-paragraph 2 amends pension rule 3 so that collective money purchase arrangements can provide the same pension benefits as defined benefits arrangements.
13. Sub-paragraph 3 amends pension rule 4 so that collective money purchase arrangements do not provide the same pension benefits as other types of money purchase arrangements.
14. Paragraph 4 amends section 167(1) of FA 2004 to set out what pension death benefits a collective money purchase arrangement can provide.
15. Sub-paragraph 2 amends pension death benefit rule 2 so that collective money purchase arrangements can provide the same pension death benefits as defined benefits arrangements.
16. Sub-paragraph 3 amends pension death benefit rule 3 so that collective money purchase arrangements do not provide the same pension death benefits as other types of money purchase arrangements.
17. Paragraph 5 amends section 172C of FA 2004 to exclude collective money purchase arrangements and benefits from the rules on allocating unallocated employer contributions.
18. Sub-paragraph 2 amends section 172C(2) of FA 2004 so that collective money purchase arrangements and benefits are excluded from the rules on the allocation of unallocated employer contributions in the same way as cash balance arrangements and benefits.
19. Paragraph 6 amends section 182 of FA 2004 so that the unauthorised borrowing rules apply correctly to collective money purchase benefits that are part of a hybrid arrangement.
20. Sub-paragraph 2 amends section 182(8) of FA 2004 to ensure that the unauthorised borrowing rules for money purchase arrangements apply correctly to hybrid arrangements that may provide collective money purchase benefits.
21. Sub-paragraph 3 inserts new subsection 9 into section 182 of FA 2004. New subsection 9 sets out varieties of money purchase benefits that may form part of a hybrid arrangement subject to section 172C of FA 2004.
22. Paragraph 7 amends section 212 of FA 2004 so that uncrystallised rights that form collective money purchase benefits as part of a hybrid arrangement, are valued correctly.
23. Sub-paragraph 2 substitutes new subsection 7 for existing subsection 7 of section 212 of FA 2004. New subsection 7 determines the value of uncrystallised right under a hybrid arrangement by valuing each possible variety of benefits in step 1 and taking the higher or highest value in step 2.
24. Sub-paragraph 3 substitutes new subsections 8 and 9 for existing subsections 8 to 10

of section 212 of FA 2004

25. New subsection 8 sets out the meaning of 'relevant' variety of benefits as those that can be provided as part of a hybrid arrangement.
26. New subsection 9 uses the same definition of 'variety of benefits' as in section 152(10) of FA 2004, introduced by paragraph 2(8) of this Schedule.
27. Paragraph 8 amends section 223 of FA 2004 to ensure the lifetime allowance non-residence factor works correctly in relation to a hybrid arrangement with collective money purchase benefits.
28. Sub-paragraph 2 amends subsection 5 to ensure that the extension of the lifetime allowance works correctly for pension saving within a hybrid arrangement during a period of non-residence.
29. Sub-paragraph 2(a) inserts new subsection 5(aa), which enables collective money purchase benefits to be an additional money purchase option within a hybrid arrangement that can be used to calculate the value of the extension of the lifetime allowance in relation to a period of non-residence.
30. Paragraph 9 amends section 226 of FA 2004 to ensure the lifetime allowance relevant relievable amount works correctly in relation to a hybrid arrangement with collective money purchase benefits.
31. Sub-paragraph 2 amends subsection 5 to ensure that the extension of the lifetime allowance works correctly for pension saving within a hybrid arrangement when there is a transfer from a pension scheme outside of the UK.
32. Sub-paragraph 2 inserts new subsection 5(aa), which enables collective money purchase benefits to be an additional money purchase option within a hybrid arrangement that can be used to calculate the value of the extension to the lifetime allowance when a transfer is received from a pension scheme established outside the UK.
33. Paragraph 10 amends section 227B(5) of FA 2004 so that the pension input amount is calculated correctly when collective money purchase benefits that form part of a hybrid arrangement and an individual has flexibly accessed their pension savings.
34. Sub-paragraphs 2 to 4 incorporate collective money purchase benefits as one of the options for calculating the part of a hybrid arrangement that forms the alternative chargeable amount when an individual has flexibly accessed their pension savings.
35. Paragraph 11 amends section 227C of FA 2004 so that collective money purchase benefits that form part of a hybrid arrangement are calculated correctly when forming part of the money purchase input sub-total.
36. Sub-paragraph 2 amends subsection 1(b)(ii) to incorporate collective money purchase benefits as one of the options for calculating the part of a hybrid arrangement that forms the money purchase input sub-total when an individual has flexibly accessed their pension savings.

37. Paragraph 12 amends section 227D of FA 2004 so that the pension input amount for hybrid arrangements is calculated correctly when collective money purchase benefits form part of that arrangement.
38. Sub-paragraph 2 amends subsection 2(a) so that collective money purchase benefits may form part of the pension input amount in relation to a hybrid arrangement.
39. Paragraph 13 amends section 227F of FA 2004 so that the pension input period is correctly apportioned in relation to collective money purchase benefits when an individual first flexibly accesses their pension benefits.
40. Sub-paragraph 2 amends subsection 5(b) so that the input amount in relation to collective money purchase benefits as part of a hybrid arrangement relates to the correct pension input period when an individual has first flexibly accessed their pension savings.
41. Paragraph 14 amends section 227G of FA 2004 so that accessing collective money purchase benefits is not treated as flexibly accessing pension benefits.
42. Sub-paragraph 2 introduces the new term 'relevant' arrangement in subsection 9(a) to mean a money purchase arrangement used to provide a scheme pension.
43. Sub-paragraph 3 inserts new subsection 9A which defines the term 'relevant' arrangement used in subsection 9 as a money purchase arrangement that is not a collective money purchase arrangement to maintain the treatment of a collective money purchase scheme pension in a similar way to a defined benefits scheme pension for tax purposes rather than as a money purchase scheme pension.
44. Paragraph 15 amends section 237 of FA 2004 to include collective money purchase benefits in the definition of hybrid arrangement.
45. Sub-paragraph 2 inserts an additional type of input amount AA in relation to a hybrid arrangement.
46. Sub-paragraph 3 inserts new subsection 3A which defines new input amount AA as the pension input amount that is referable to collective money purchase benefits.
47. Sub-paragraph 4 ensures that collective money purchase benefits are treated separately to any other type of money purchase benefits.
48. Paragraph 16 inserts the definitions for 'collective money purchase arrangement' and 'collective money purchase benefits' in the general index for Part 4 of FA 2004.
49. Paragraph 17 amends Schedule 28 to FA 2004 so that pension benefits can be paid out of collective money purchase benefits.
50. Sub-paragraph 2 inserts new sub-paragraph 3A which provides that no unauthorised payment arises as a result of a substantial reduction in the amount of scheme pension payable under the scheme rules in respect of a collective money purchase arrangement. This enables a collective money purchase scheme pension to increase or decrease in line with the scheme rules without giving rise to an unauthorised payments charge.

51. Paragraph 18 amends Schedule 29 to FA 2004 so that pension lump sums can be paid out of collective money purchase benefits.
52. Sub-paragraph 2 amends paragraph 1 of Schedule 29 so that there is no entitlement to a pension commencement lump sum if a collective money purchase scheme pension is converted to a drawdown pension fund as part of the winding-up process of a pension scheme.
53. Sub-paragraph 2 inserts new sub-paragraph 4A into Schedule 29 which makes a lump sum paid in connection with designation of funds into a drawdown fund an excluded lump sum, rather than a tax-free pension commencement lump sum.
54. Sub-paragraph 3 amends paragraph 2(6B) of Schedule 29 so that collective money purchase scheme pensions use the amount of the benefit crystallisation event in determining how much lifetime allowance is used up in contrast to other types of money purchase scheme pensions which the aggregate amount of the sums and assets used to purchase the scheme pension.
55. Sub-paragraph 4 amends paragraph 3 of Schedule 29 so that collective money purchase arrangements are treated in the same way as defined benefits arrangements when calculating the applicable amount of the pension commencement lump sum.
56. Sub-paragraph 5 amends paragraph 4A of Schedule 29 so that an uncrystallised funds pension lump sum cannot be paid out of a collective money purchase arrangement.
57. Sub-paragraph 6 amends paragraph 7 of Schedule 29 so that although a collective money purchase arrangement is a money purchase arrangement, it can be used to pay a trivial commutation lump sum.
58. Paragraph 19 amends Schedule 32 to FA 2004 so that benefit crystallisation events work correctly for collective money purchase benefits.
59. Sub-paragraph 2 inserts new paragraph 2B which prevents funds used to provide a collective money purchase scheme pension from being tested twice against the lifetime allowance where the scheme is being wound up.
60. New paragraph 2B(1) prevents the same funds being tested twice against the lifetime allowance where funds that have been crystallised as a collective money purchase scheme pension are then designated into a drawdown fund in connection with the winding up of the scheme.
61. New paragraph 2B(2) prevents this overlap of tests by reducing the amount crystallised by the current test by the amount crystallised when the individual became entitled to the collective money purchase scheme pension.
62. Sub-paragraph 3 omits the provision in paragraph 5 valuing the amount to be used as the sum crystallised where an individual with a hybrid arrangement reaches age 75. It is replaced with new paragraph 14ZA of Schedule 32 introduced by paragraph 19(8) of this Schedule.

63. Sub-paragraphs 5 to 7 amend paragraph 10 of Schedule 32.
64. Sub-paragraph 5 inserts new sub-paragraph A1 which introduces an alternative option (condition B) for excepted circumstances to occur in relation to the increase in a pension over a year.
65. Sub-paragraph 6 makes the current exception in paragraph 10 (now condition A) apply to arrangements that are not collective money purchase arrangements.
66. Sub-paragraph 7 inserts new sub-paragraph 5 which introduces condition B, which applies to collective money purchase arrangements. It provides an exception from a further test against the lifetime allowance (benefit crystallisation event 3) in relation to the increase in the annual rate of the pension if the scheme pensions paid under the scheme are paid under collective money purchase arrangements and are increased at the same rate.
67. Sub-paragraph 8 inserts new paragraph 14ZA which sets out the amount to be tested against the lifetime allowance in relation to a hybrid arrangement of an individual who has reached age 75.
68. New paragraph 14ZA(1) provides that the test takes place immediately before the individual reaches age 75.
69. New paragraph 14ZA(2) sets out that if the hybrid arrangement could provide defined benefits then those benefits are tested against the lifetime allowance using benefit crystallisation event 5.
70. New paragraph 14ZA(3) sets out that if the hybrid arrangement could provide money purchase benefits (whether, cash balance, collective money purchase or money purchase benefits other than cash balance and collective money purchase) then each of those types of benefits are tested against the lifetime allowance using benefit crystallisation event 5B.
71. New paragraph 14ZA(4) provides that the greater or greatest amount is the amount to be used as the amount crystallised in relation to the hybrid arrangement.
72. New paragraphs 14ZA(5) sets out the meaning of 'relevant' variety of benefits as those that can be provided as part of a hybrid arrangement.
73. New paragraphs 14ZA (6) uses the same definition of 'variety of benefits' as in section 152(10), introduced by paragraph 2(8) of this Schedule.
74. Sub-paragraph 9 amends paragraph 14A of Schedule 32 to FA 2004 to clarify when there are 'remaining unused funds' in relation to collective money purchase scheme pensions.
75. Sub-paragraph 9(b) inserts a new sub-paragraph 1(aa) which separates out collective money purchase arrangements from money purchase arrangements other than cash balance arrangements.
76. Sub-paragraph 9(c) inserts new sub-paragraph 2 which provides that any returns from investments relating to collective money purchase scheme pensions are to be

treated as applied towards those scheme pensions, even if they are still awaiting the annual revaluation and have not yet been applied. This means that those returns cannot be considered as remaining unused funds.

77. Paragraph 20 amends Schedule 36 to FA 2004 which modifies Part 4 of FA 2004 for arrangements in existence before 6 April 2006.
78. Sub-paragraph 2 amends paragraph 29(3) of Schedule 36 which modifies how Schedule 29 to FA 2004 works for pension provision in existence before 6 April 2006 by substituting different versions of paragraphs 3(6) and 3(7A) of Schedule 29. This sub-paragraph amends paragraph 29(3) of Schedule 36 to reflect the changes made to Schedule 29 in paragraph 18 of this Schedule to accommodate collective money purchase arrangements and benefits.
79. Sub-paragraph 3 amends paragraph 34(2) of Schedule 36 which modifies how Schedule 29 to FA 2004 works for pension provision in existence before 6 April 2006 by substituting paragraph 2(7AA) of Schedule 29. This sub-paragraph amends paragraph 34(2) of Schedule 36 to reflect the changes made to Schedule 29 in paragraph 18 of this Schedule so that they do not apply to collective money purchase arrangements.
80. Paragraph 21 sets out that the amendments in this Schedule will not enter into force until HM Treasury regulations appoint that date.

Background note

81. These amendments incorporate the collective money purchase provisions introduced by the Pension Schemes Act 2020 into the pensions tax relief provisions in Part 4 of FA 2004.
82. They introduce collective money purchase arrangements and benefits and ensure that the unique nature of those benefits can operate within Part 4 without creating unintended unauthorised payments charges.
83. Collective money purchase arrangements are defined as money purchase arrangements but work in a different way to other benefits. As a result, they do not replicate any of the existing types of benefits precisely.
84. For annual allowance purposes collective money purchase arrangements are treated in the same way as money purchase arrangements other than cash balance arrangements but the pension benefits that may be paid as authorised payments are more limited than under other money purchase arrangements. However, the rate at which collective money purchase scheme pensions may be paid can fluctuate to a greater degree year on year than other scheme pensions, while remaining an authorised payment. This reflects the nature of collective money purchase scheme pensions.
85. A number of amendments are made to incorporate collective money purchase benefits in the provision for hybrid arrangements.

86. In addition, specific provision is made in relation to a pension scheme with collective money purchase arrangements and/or benefits being wound up to enable transfer to other registered pension schemes.
87. If you have any questions about this change, or comments on the legislation, please contact Beverley Davies on 03000 512336 (email: pensions.policy@hmrc.gov.uk).