HM Revenue
& Customs

Pensions Flexibility: Draft guidance on clauses for the Taxation of Pensions Bill

Draft Guidance

21 October 2014

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Introduction

At Budget 2014, the Government announced the most fundamental change to how people can access their pension savings in nearly a century. From April 2015, individuals with money purchase savings will be able to access their entire pension fund flexibly if they wish. This will allow individuals to make their own choices about how to use their pension savings.

To introduce this new flexibility, a number of changes need to be made to the existing pensions tax legislation in Finance Act 2004 (FA 2004) as well as Income Tax (Earnings and Pension) Act 2003 (ITEPA 2003) and a number of statutory instruments. These changes are included in the Taxation of Pensions Bill. A draft of this Bill was originally published for consultation on 6 August 2014. Following the consultation, a number of changes have been made to the Bill, including two new parts that have been added to the Schedule, on Reporting and International. This was introduced to Parliament on 14 October 2014

This draft guidance is intended to support the clauses in the Taxation of Pensions Bill. The Bill is subject to change until it completes its Parliamentary passage and it receives Royal Assent. This updated version of the guidance includes four new chapters.

- Changes to the Bill following consultation (Chapter 2)
- Death benefits (Chapter 7)
- Reporting (Chapter 8)
- Overseas aspects (Chapter 9)

This guidance does not cover any legislative changes that will be in the DWP Pension Schemes Bill such as the Guidance Guarantee or the regulatory framework for defined ambition pension schemes. It is also not intended to provide detail on the existing pensions tax legislation. Guidance on this can be found on the GOV.UK website and in the Registered Pension Schemes Manual.

If you have any questions or comments in connection with this draft guidance, please send them to pensions.policy@hmrc.gsi.gov.uk by close on 28 November 2014.

Chapter 1 - Background

1.1 What do the published clauses cover?

From April 2015, changes are being made to pension tax rules to give individuals aged 55 and over greater flexibility to access their pension savings. The changes in the published draft clauses will;

- allow all of the funds in a money purchase arrangement to be taken as an authorised taxed lump sum, removing the higher unauthorised payment tax charges;
- increase the flexibility of the income drawdown rules by removing the maximum 'cap' on withdrawal and minimum income requirements for all new drawdown funds from 6 April 2015;
- enable those with 'capped' drawdown to convert to a new drawdown fund once arranged with their scheme should they wish;
- enable pension schemes to make payments directly from pension savings with 25 per cent taken tax-free (instead of a tax-free lump sum);
- introduce a limited right for scheme trustees and managers to override their scheme's rules to pay flexible pensions from money purchase pension savings;
- remove some restrictions on lifetime annuity payments;
- ensure that individuals do not exploit the new system to gain unintended tax advantages by introducing a reduced annual allowance for money purchase savings where the individual has flexibly accessed their savings;
- increase the maximum value and scope of trivial commutation lump sum death benefits;
- provide new information requirements to ensure that individuals who have flexibly accessed their pension savings are aware of the tax consequences of doing so;
- reduce certain tax charges that apply to death benefits; and,
- make changes to the rules for UK individuals who receive UK tax relief for contributions to non-UK pension schemes, so that the flexibilities and restrictions to relief will apply equally to them.

1.2 How do the changes work?

From 6 April 2015, you will be able to take as little or as much as you want from a money purchase arrangement once you have reached normal minimum pension age (normally age 55). You will have the choice of taking your funds as an income for life, for example by purchasing a lifetime annuity or taking a scheme pension, or you can flexibly access as much of your funds when you want.

To access your funds flexibly you will have two main options;

- you can put your funds into a drawdown fund, known as a flexi-access drawdown fund from which you can draw down any amount over whatever period you choose; or

- you can take a single lump sum or series of lump sums from your uncrystallised funds, (known as an uncrystallised funds pension lump sum); or
- you can choose to do a combination of these.

The amount of tax due will depend on how you take your pension funds (and on your own personal circumstances). See Tax when you get a pension.

Any payments from a flexi-access drawdown fund will be taxable as a pension. However you can have a tax-free lump sum of up to 25% of your pension fund (a pension commencement lump sum) when you put funds into a flexi-access drawdown fund.

Any payment of an uncrystallised funds pension lump sum will be 25% tax free, with the remainder taxable as if it were a pension.

See Chapter 3 of this guidance note for more information about your choices.

From 6 April 2015 certain flexible access payments on or after 6 April 2015 will trigger the money purchase annual allowance rules. This will limit the amount of tax relief you can get on future savings to any money purchase arrangement. See Chapter 4 of this guidance note.

The changes will also ensure that if you have already taken (or 'crystallised') your pension from a money purchase arrangement, the current tax rules can continue to apply to any payments of pension that you receive on or after 6 April 2015 and you will not trigger the money purchase annual allowance rules unless or until you access benefits flexibly under the new rules.

If on 5 April 2015 you have an existing drawdown pension fund, then you will still be able to take advantage of the new flexibilities if you wish. Receiving certain payments under the new rules will mean however that you will trigger the money purchase annual allowance rules. See Chapter 6 of this guidance note.

1.3 When will the changes start from?

The tax changes in relation to the new flexibilities are intended to take effect from 6 April 2015.

Chapter 2 – Changes to the Bill following consultation

2.1 Introduction

The draft Bill was published for a four week Technical Consultation which finished on 3 September 2014.

HMRC is very grateful for everyone who took time to respond to the consultation as well as those that provided input into the various meetings held with representative bodies. In total, 45 written responses were received. Respondents have welcomed the chance to comment on the draft Bill, and we are grateful for the various comments made, including those suggestions to improve the drafting of the Bill as well picking up a few typos.

2.2 Changes to the Bill

The changes to the Bill that have made since the consultation fall into four categories.

- Death benefit charges
- Reporting requirements
- International
- Miscellaneous changes

2.3 Death benefit charges

Clause 2 of the Bill deals with death benefit charges. This is a new clause to the Bill and was not included in the draft Bill.

Information on the changes to death benefit charges can be found in Chapter 7 of this guidance.

2.4 Reporting requirements

Part 6 of the Bill deals with new reporting requirements, both for scheme administrators and individuals. This is a new Part to the Bill and was not included in the draft Bill. The new reporting requirements are intended to ensure that where an individual has flexibly accessed their pension savings then;

- every scheme they are a member of is aware of this;
- the individual is able to get the right information to declare on their self assessment tax return any annual allowance charge due; and,
- HMRC is provided with sufficient information to ensure the right amount of tax is paid.

More detailed information on the reporting requirements can be found in Chapter 8 of this guidance.

2.5 Overseas

Part 7 of the Bill deals with overseas pensions aspects. This is a new Part to the Bill and was not included in the draft Bill.

Information on the overseas pensions changes can be found in Chapter 9 of this guidance.

2.6 Miscellaneous changes

A number of other drafting and technical changes have also been made to the draft legislation.

The main changes are as follows;

Uncrystallised funds pension lump sum (UFPLS)

A number of respondents to the consultation mentioned that disqualifying pension credits are uncrystallised rights for the member, even though the rights that were the subject of the corresponding pension debit were crystallised rights. As these rights will already have had 25% paid tax free, any payment of these rights to the member should be taxable at the member's marginal rate.

To prevent complicated rules having to be introduced to allow disqualifying pension credits being paid as a UFPLS but 100% taxable, a change has been made so that an UFPLS cannot be paid from pension rights representing rights to a disqualifying pension credit. Individuals in this position can still receive the whole amount as a single payment if they designate the funds to a flexi-access drawdown fund and then withdraw the full amount. This will be taxed at their marginal rate.

The Bill has also been amended to make clear that an uncrystallised funds pension lump sum cannot be a pension commencement lump sum or a small pot lump sum.

Trivial commutation lump sums and small pots lump sums

The draft Bill lowered the age when a trivial commutation lump sum or small pot lump sum can be paid from age 60 to normal minimum pension age - see chapter 3 of the guidance. Following representations, this principle has been further extended so that these lump sums can also be paid before normal minimum pension age if the ill-health condition is met in relation to the individual.

In addition a change has been made to replace the requirement that a trivial commutation lump sum must extinguish all of the member's entitlement to benefits under the pension scheme with a requirement that the lump sum extinguishes all of the member's entitlement to defined benefits under that pension scheme.

Trivial Commutation Lump Sum Death Benefit

The draft Bill included changes to the trivial commutation lump sum death benefit rules to increase the maximum to £30,000 and to amend the circumstances when it can be paid to include the commutation of a lifetime annuity or scheme pension, which are payable to any person for a term certain ending after the member's death -, see chapter 10 of this guidance.

Following comments received two amendments have been made to this;

- the change will apply to any trivial commutation lump sum death benefit paid on or after 6 April 2015 rather than being based on when the death occurred. The same change has also been made to winding-up lump sum death benefits;
- where the annuity or scheme pension is paid by an insurance company, the trivial commutation lump sum death benefit will be required only to extinguish all rights under the contract in respect of the member for which the insurance company is liable.

Scheme rules override

A number of respondents have suggested that all new types of payment introduced by the Bill should be included in the list of payments that the override applies to, and that the flexi-access drawdown fund lump sum death benefit was not included.

A change has been made to add the following to the list of payments the override applies to;

- the payment of a pension commencement lump sum where the member becomes entitled to income withdrawal;
- a flexi-access drawdown fund lump sum death benefit; and
- the new category of trivial commutation lump sum death benefit payable under paragraph 20(1)(ba) of Schedule 29.

Money purchase annual allowance rules

To prevent avoidance of the money purchase annual allowance rules, two new events have been introduced that trigger the money purchase annual allowance rules. In addition a change has been made to when the new hybrid arrangement rules apply.

Lifetime annuities

Whilst the new rules for lifetime annuities do not prevent a lifetime annuity from decreasing, a change is being introduced so that the money purchase annual allowance rules will apply to a member where they receive a payment of a lifetime annuity that is a flexible annuity. Broadly a flexible annuity will be one that is capable of being reduced other than in permitted circumstances

Scheme pensions

Where a money purchase arrangement starts to pay a scheme pension to a member, and where there are fewer than 12 members or dependants receiving scheme pensions under that arrangement at that time, this will trigger the money purchase annual allowance rules for that member.

Hybrid arrangements

A number of the consultation responses received felt that the rules for hybrid arrangements are very complex. Some responses suggested that there may be a large number of existing arrangements which pose no future Exchequer risk as many of them will have been set up many years ago to deliver mandatory protections to members under statutory obligations imposed by DWP.

The rules will therefore be amended so that the definition of a relevant hybrid arrangement in section 227D excludes arrangements that existed as hybrid arrangements relating to the specified member before 14 October 2014. This means

that the schemes operating such arrangements will not have to pay any attention to section 227D when operating the annual allowance rules and nor will the members to whom they relate. Accordingly, where relevant input amount C is higher than the higher of relevant input amounts A and B in section 237, relevant input amount C will always be the only value used in respect of that arrangement when calculating the chargeable amount.

Definition of hybrid arrangement

A small change has also been made to new section 227D(1) making it clear that the test for whether a hybrid arrangement is a relevant hybrid arrangement is for the particular tax year for which the chargeable amount is being calculated.

Individuals entitled to a flexible drawdown payment before 6 April 2015

Where an individual has had a valid flexible drawdown declaration accepted by a scheme administrator before 6 April 2015, they will be deemed to have flexibly accessed their pension savings on 6 April 2015 and will be subject to the money purchase annual allowance from that date.

The intention is that these individuals will have a £10,000 money purchase annual allowance for 2015-16 and a defined benefits annual allowance of between £30,000 and £40,000 (depending on money purchase pension input amounts and disregarding carry forward rules) regardless of when the flexible drawdown payment was made.

A number of respondents to the consultation have questioned whether the draft legislation achieves this aim.

A change has therefore been made in the Bill to ensure that where a member is entitled to flexible drawdown before 6 April 2015 and will therefore be subject to the money purchase annual allowance rules from that date, then the rules that would normally apply to pension input periods in which rights are first flexibly accessed (new section 227F) will not apply to that individual.

Transfers

Member’s and dependant's flexi-access drawdown funds

A transfer of sums and assets representing a member’s or dependant’s flexi-access drawdown fund will be a recognised transfer only if no other sums or assets are held under the new arrangement under the receiving scheme. After a transfer, the new arrangement comprising rights to a drawdown pension from a flexi-access drawdown fund will be treated as if it were the original pre-transfer arrangement for the purposes of pension rule 1 in section 165(1). The designation of the flexi-access drawdown fund under the new scheme will not be a benefit crystallisation event (BCE) and there will be no right to take a pension commencement lump sum (PCLS) from the new scheme.

Member’s and dependant’s (capped) drawdown pension funds

As now, to be a recognised transfer the sums and assets representing a member’s or dependant’s drawdown pension fund must be transferred to an empty arrangement containing no other sums or assets. When designated into drawdown under the new scheme the new fund will be a capped member's (or dependant's) drawdown pension fund, unless the member or dependant has asked for flexi-access drawdown funds under the new scheme. The member or dependant will be able to notify the scheme administrator of the receiving scheme, before or at the same time as the recognised

transfer, that they wish the new fund to be a flexi-access drawdown fund comprising newly-designated funds.

Whether designated as a continuing capped drawdown pension fund or as flexi-access drawdown fund the new arrangement will be treated as if it were the original pre-transfer arrangement for the purposes of pension rule 1 in section 165(1). The designation under the new arrangement will not be a BCE and there will be no right to take a PCLS from the new scheme.

Annuities

Currently if a member is entitled to an annuity (lifetime or short-term) and the annuity is transferred to another provider there will be an unauthorised payment unless the transferred sums and assets are used to provide a new lifetime annuity or short-term annuity as appropriate. Similar provisions apply to the transfer of a dependants' annuity or dependants' short-term annuity.

The Bill gives HMRC the power to make regulations to prescribe that where;

- the member became entitled to the lifetime annuity before 6 April 2015; and
- the replacement annuity contract allows for, or could allow for, payments to decrease in circumstances other than those allowed under SI 2006/568,

the new annuity is not a lifetime annuity. As a result there would be an unauthorised payment.

The Bill gives HMRC the power to make regulations in the same circumstances on the transfer of dependants' annuities and member's and dependants' short-term annuities.

Protected pension age on transfer

Currently where a member with a protected pension age takes a pension before age 55, then if they transfer the pension to another scheme before age 55 other than as a block transfer, any payment of the pension before age 55 in the receiving scheme would be an unauthorised payment.

Following comments in the consultation, the Bill amends Schedule 36 of Finance Act 2004 to provide that any pension in payment using a protected pension age can continue to be paid as an authorised payment following the transfer.

Stand-alone lump sums

Where a stand-alone lump sum is paid on or after 6 April 2015, this triggers the money purchase annual allowance rules.

However as the money purchase annual allowance rules are intended to be triggered only by flexible access to money purchase pension benefits, a change has been made to amend article 25C of the Taxation of Pension Schemes (Transitional Provisions) Order 2006 (SI 2006/572), so that the money purchase annual allowance rules will apply only where the stand-alone lump sum is paid under a money purchase arrangement.

The Pension Benefits (Insurance Company Liable as Scheme Administrator) Regulations 2006 (SI 2006/136) amendment

A change has been made in the Bill to amend the Pension Benefits (Insurance Company Liable as Scheme Administrator) Regulations 2006 (SI 2006/136) to add a reference to flexi-access drawdown fund lump sum death benefits in regulation 2.

This change means that where a flexi-access drawdown fund lump sum death benefit is paid by an insurance company then they will be responsible, as if they were the scheme administrator, for the payment of the special lump sum death benefits charge.

Right to pre A-day drawdown where the first post A-day Benefit Crystallisation Event (BCE) occurs after 6 April 2015 & start date

The maximum that can be paid as a capped drawdown pension was increased from 120 per cent to 150 per cent of the basis amount for pension years starting on or after 27 March 2014. An amendment was included in the draft Bill intended to ensure that in such cases, the amount of lifetime allowance used up is the same as before 27 March 2014 when the first post A-day BCE occurs. An amendment has been made in the Bill to ensure the rules work as intended. In addition a change has been made so that this applies where the first BCE after A-day occurs on or after 6 April 2015.

Recycling of pension commencement lump sums

A change will be made from 6 April 2015, so that the recycling rule applies where the amount of the pension commencement lump sum, plus any other similar lump sums taken in the previous 12 month period, exceeds £7,500.

Repeals

Two statutory instruments that would have ceased to have any effect from 6 April 2015 have been repealed. These are

- The Registered Pension Schemes (Relevant Income) Regulations 2011 (SI 2011/1783), and
- The Registered Pension Schemes (Prescribed Requirements of Flexible Drawdown Declaration) Regulations 2011 (SI 2011/1792).

The guidance note has been updated throughout where appropriate to reflect these miscellaneous changes.

Chapter 3 - Taking benefits from a money purchase arrangement

3.1 What benefits can I take from a money purchase arrangement from 6 April 2015?

When you come to take your benefits from a money purchase arrangement under a registered pension scheme on or after 6 April 2015 from age 55, you will be able to choose one or more of the following options:

- Buying a lifetime annuity - see RPSM09101700,
- Designating some or all of your fund to provide a drawdown pension - see RPSM09103500, funds pension lump sum - see section 3.12 below,
- Taking a scheme pension - see RPSM09101200.

However some schemes may not offer all of these options, and therefore you may wish to talk to your scheme administrator or an independent financial advisor about your options.

Lifetime annuity and drawdown pension

If you buy an annuity or designate funds as available for drawdown you will, as now, also be able to receive at the same time a tax-free lump sum (known as a 'pension commencement lump sum' or 'PCLS'). The maximum amount of this lump sum is an amount equal to one third of the value of your annuity or of the funds that you have designated for drawdown. Any other money paid to you from the annuity or the drawdown pension will continue to be taxable as pension income at your marginal rate.

If you flexibly access your drawdown pension on or after 6 April 2015, (that is receive payments from it), the tax relief on any further pension savings you make to a money purchase arrangement will be restricted. You will receive tax relief only on money purchase pension savings up to £10,000 a year. Any excess will not benefit from tax relief as you will be liable to the annual allowance charge on the excess. See chapter 4 of this guidance.

Uncrystallised funds pension lump sum

If you take an uncrystallised funds pension lump sum, one quarter of the amount paid will normally be tax-free and the remainder will be taxable as pension income.

If you take an uncrystallised funds pension lump sum, the tax relief on any further pension savings you make to a money purchase arrangement will be restricted. You will receive tax relief only on money purchase pension savings up to £10,000 a year. Any excess will not benefit from tax relief as you will be liable to the annual allowance charge on the excess. See chapter 4 of this guidance.

Scheme pension

If you take a scheme pension, the maximum tax-free lump sum (PCLS) is calculated as an amount equal to one third of the value of the sums and assets in your fund that are taken to provide the scheme pension.

There may also be circumstances when you can take your pension savings as a small pot lump sum. See How your pension is paid.

3.2 What is a money purchase arrangement?

A money purchase arrangement can be in the form of either a cash balance arrangement or a defined contribution arrangement (known as an 'other money purchase arrangement'). See RPSM09202010 for further information on money purchase arrangements.

3.3 What is a lifetime annuity?

From 6 April 2015, to be a lifetime annuity, the annuity must be payable at least annually to the member by an insurance company and must be payable at least until the member's death. Payments from a lifetime annuity are taxed as income of the recipient. A lifetime annuity cannot be surrendered before the death of the member.

From 6 April 2015, some of the current restrictions on a lifetime annuity will be removed.

- The annual rate of the lifetime annuity will be allowed to go down as well as up.
- The member will no longer be subject to the unauthorised payment charges if they have not had an opportunity to select the insurance company paying the annuity.
- The current 10-year restriction on the maximum guarantee period for paying the income from a lifetime annuity will be removed. A lifetime annuity may continue to be paid after the member's death for any period that is set out in the annuity contract.

Where the lifetime annuity is capable of reducing other than in prescribed circumstances, then from the date of the first payment of that annuity, the tax relief on any further pension savings you make to a money purchase arrangement will be restricted. You will receive tax relief only on money purchase pension savings up to £10,000 a year. Any excess will not benefit from tax relief as you will be liable to the annual allowance charge on the excess. See chapter 4 of this guidance.

> *Example 1*
>
> *Elaine, aged 65, has pension savings in her defined contribution scheme of £200,000. In May 2015 she decides she wants to buy a lifetime annuity. She can have £50,000 paid to her as a tax-free lump sum. The remaining £150,000 is paid to an insurance company to provide her with an income. Initially she receives £7,000 a year. This counts as taxable pension income and Elaine is therefore liable to any income tax due on it, although if she has no other income, the total paid will be within her personal allowance and no tax will be payable.*

3.4 Does this mean that the Open Market Option requirement has been abolished?

No. The Open Market Option has not been changed. The tax rules however have been amended to ensure that the member won't be subject to tax charges where they are not given the opportunity to select the insurance company paying the annuity.

3.5 What is a drawdown pension?

A drawdown pension can take different forms;

- a short-term annuity paid to you by an insurance company; or,
- a pension paid to you from someone other than an insurance company (known as income withdrawal). Payments do not have to be regular and can vary.

See Keeping your pension fund invested for further information on taking a drawdown pension before 6 April 2015.

3.6 What are the options for a drawdown pension from 6 April 2015?

From 6 April 2015 a new drawdown pension can be either;

- Income withdrawal – where you can take how much you want, when you want; or,
- A short-term annuity – where all or some of your drawdown funds are passed to an insurance company to buy an annuity that will pay an income to you for up to 5 years.

However depending on whether the drawdown fund already existed on 5 April 2015 (a drawdown pension fund) or is a new drawdown fund set up on or after 6 April 2015 there are slightly different rules.

3.7 What if I already have a drawdown pension on 5 April 2015?

If you have designated funds as available for drawdown prior to 6 April 2015 your drawdown pension fund may be either

- Capped drawdown - see RPSM09103530, or
- Flexible drawdown - see RPSM09103590

The options available to you depend on the form of your current drawdown pension and whether or not you are designating funds under the same arrangement.

Whichever option you choose when you designate the new funds as available for drawdown, you will be able to receive at the same time a tax-free lump sum (a pension commencement lump sum) of an amount up to one third of the value of the newly designated funds.

If you designate funds under an arrangement that before 6 April 2015 didn't contain a drawdown pension fund the funds will be designated into what is known as a flexi-access drawdown fund. There will be no limit on the amount that you can draw from

the fund each year. You will be able to take payments whenever you like, for example as a regular stream, or just as one or more lump sums. Any payment from the flexi-access drawdown fund will be taxable as pension income and will trigger the money purchase annual allowance rules.

If before 6 April 2015 you had a valid declaration confirming that you met the flexible drawdown conditions accepted by a scheme administrator, your drawdown pension fund will convert automatically to a flexi-access drawdown fund on 6 April 2015. The money purchase annual allowance rules will apply to you from that date. Any further designations under the arrangement holding the drawdown fund will go into the flexi-access drawdown fund.

If on 5 April 2015 your existing drawdown pension fund was paying a capped drawdown pension and you designate new funds under the same arrangement that holds the capped drawdown fund you have two options.

1. Before you designate the funds you can convert your capped drawdown pension fund into a flexi-access drawdown fund. If you do this the newly designated funds will be designated to the converted flexi-access drawdown fund. When you access any of these funds you will trigger the money purchase annual allowance rules.
2. You do not convert your existing capped drawdown pension fund into a flexi-access drawdown fund. Your newly designated funds will be designated to your existing capped drawdown pension fund. The limit on the maximum amount of pension you can draw each year will continue to apply to that fund (including all the administration needed to review and calculate that maximum amount). If this is the case, the money purchase annual allowance rules will not apply to you as long as
    - the drawdown pension you get from your capped drawdown pension fund is not more than your maximum capped drawdown amount, and
    - you have not flexibly accessed your pension funds under another arrangement or as an uncrystallised funds pension lump sum.

3.8 I have not had a drawdown pension fund before 6 April 2015

To qualify for a drawdown pension you must first designate funds as available for drawdown with your pension provider. If you do not have an existing drawdown pension fund on 5 April 2015, you must designate those funds to a new drawdown fund, known as your flexi-access drawdown fund.

When you designate the new funds as available for drawdown, you will be able to receive at the same time a tax-free lump sum of an amount equal to one third of the value of the funds you have put into your flexi-access drawdown fund. So if you have a pension pot of £40,000, you could designate £30,000 as available for drawdown and the remaining £10,000 in your pot (which is one third of £30,000) can be taken as a tax-free lump sum.

If you designate funds as available for drawdown to a flexi-access drawdown fund, and subsequently access any of those funds, whether in the form of income withdrawal or a short term annuity, then from that time you will be subject to the money purchase annual allowance rules and you will receive tax relief only on money purchase pension savings up to £10,000 a year. See Chapter 4 of this guidance.

3.9 How can I take my drawdown funds?

Once you have designated funds into a drawdown fund, there are two ways you can access them, income withdrawal or a short-term annuity.

3.10 What is income withdrawal?

If you choose income withdrawal from your flexi-access drawdown fund, you can then take as much or as little as you like each year from it regardless of any other income you may have.

If you choose income withdrawal from your pre-6 April 2015 drawdown pension fund, you can if you wish continue to take no more than the current annual maximum for capped drawdown. However whereas before 6 April 2015 if you exceed the cap, the excess is an unauthorised payment, from 6 April 2015 any excess will not be an unauthorised payment, but the capped drawdown fund will automatically be converted to a flexi-access drawdown fund.

You are liable to income tax at your marginal rate on whatever you take out from your flexi-access drawdown fund or pre-6 April 2015 drawdown pension fund.

Example 2

Dinta has £40,000 in a money purchase arrangement which she wants to take benefits from through drawdown. She hasn't previously designated any funds to a drawdown pension fund.

Dinta therefore designates £30,000 to a flexi-access drawdown fund. At the same time, she receives from her money purchase arrangement a tax-free lump sum of £10,000 (one third of the value of the funds she put into drawdown).

Dinta does not have to take any money from her flexi-access drawdown fund, but when she does she will trigger the money purchase annual allowance rules.

Example 3

John has £50,000 in a money purchase arrangement which he wants to take benefits from through drawdown. He has prior to 6 April 2015 designated funds to a drawdown pension fund which he is taking as capped drawdown. John has the choice of designating the additional funds to a new flexi-access drawdown fund, to his existing drawdown pension fund or converting his existing fund into a flexi-access drawdown fund and then designating the £50,000 into that converted flexi-access drawdown fund.

John decides he wants to continue with his existing capped drawdown pension fund and therefore designates £37,500 to the drawdown pension fund. At the same time, he receives from his money purchase arrangement, a tax-free lump sum of £12,500 (one third of the value of the funds he put into drawdown).

As long as John does not receive payments in excess of the capped drawdown limit from his drawdown fund, he will not trigger the money purchase annual allowance rules.

Example 4

Tom, aged 58, has pension savings in his money purchase scheme of £120,000. He has no other pension savings but is still employed and receives an income of

£27,000 a year. In December 2015, he decides that he wants to put the funds into a flexi-access drawdown fund. He can have £30,000 paid to him as a tax-free lump sum. The remaining £90,000 is designated as available for drawdown.

In the first year Tom takes £5,000 from his flexi-access drawdown fund. His total taxable income for the year is therefore £32,000. As this is less than the higher rate threshold, Tom is liable to income tax at basic rate on all his income.

In the second year Tom takes £25,000 from his flexi-access drawdown fund. His total taxable income for the year is therefore £52,000 and he will be liable for income tax at higher rate on the amount over the higher rate threshold, and at basic rate on the amount between his personal allowance and the higher rate threshold.

3.11 What is a short-term annuity?

From 6 April 2015, if you choose to buy a short-term annuity with some or all of the funds in your flexi-access drawdown fund or existing capped drawdown pension fund, the annuity must be payable at least annually to you by an insurance company and must be payable for no more than 5 years.

From 6 April 2015, the income you receive from a short-term annuity may go down as well as up, and there will no longer be a requirement that you must have been given the opportunity to select the insurance company that pays the annuity, although schemes may still offer you this opportunity should they wish.

3.12 What is an uncrystallised funds pension lump sum?

From 6 April 2015, if you want to access some or all of your money purchase pension savings without first designating funds as available for drawdown, you can have an uncrystallised funds pension lump sum.

Normally one quarter (25 per cent) of the amount paid will be tax-free, with the remainder taxable as pension income. The exception to this will be in certain circumstances if you are 75 or older. You can not have a pension commencement lump sum in connection with an uncrystallised funds pension lump sum.

To qualify as an uncrystallised funds pension lump sum

- It must be payable from uncrystallised rights held under a money purchase arrangement
- You must have more lifetime allowance remaining than the amount of the lump sum if you are under age 75 when it is paid
- If you are 75 or over when the lump sum is paid, you must have at least some lifetime allowance remaining at that time, and
- You must have reached normal minimum pension age (55) or meet the ill-health condition.

An uncrystallised funds pension lump sum cannot be paid from a drawdown fund.

You also cannot be paid an uncrystallised funds pension lump sum if immediately before the lump sum is paid;

- You have either primary protection and/or enhanced protection with protection of lump sum rights of more than £375,000 (see RPSM03105135 and RPSM03105185); or,

- You have a lifetime allowance enhancement factor (due to primary protection, pension credits from previously crystallised rights, non-residence, transfers from recognised overseas pension schemes or pre-commencement pension credits) and the available portion of your lump sum allowance is less than 25 per cent of the proposed uncrystallised funds pension lump sum

This provision ensures that you cannot get an uncrystallised funds pension lump sum that would give you a bigger tax-free amount than you could be paid as a tax-free pension commencement lump sum.

You also cannot take an uncrystallised funds pension lump sum from pension rights that came from a disqualifying pension credit. A disqualifying pension credit is a pension credit that is applied to your funds as part of a pension sharing order on divorce and where at the time the pension credit was created, your former spouse or former civil partner's pension that is being shared with you was actually in payment.

If you take an uncrystallised funds pension lump sum on or after 6 April 2015, you will be subject to the money purchase annual allowance rules from that date. Any excess money purchase pension savings will not benefit from tax relief because you will be liable to the annual allowance charge on the excess. See Chapter 4 of this guidance.

Example 5

Naresh, aged 61, is currently a higher rate tax payer with an income of £70,000 per annum. He has pension savings in a money purchase arrangement of £340,000. In October 2015, Naresh decides not to designate funds as available for drawdown but instead takes a one-off payment of £120,000 from his pension scheme which qualifies as an uncrystallised funds pension lump sum.

Naresh can receive 25% of this payment tax-free (£30,000) and the remaining 75% (£90,000) is taxed as pension income.

His total income for the year is therefore £160,000 and as this is greater than the additional rate threshold of £150,000, £10,000 of his income will be taxed at the additional rate of 45%, with the remaining income in excess of his personal allowance taxable at basic or higher rate.

If you are under age 75 when your uncrystallised funds pension lump sum is paid, the full amount of the lump sum is tested against your remaining LTA as a benefit crystallisation event 6 (BCE6). A BCE6 occurs where an individual becomes entitled to certain specified lump sums. Entitlement to an uncrystallised funds pension lump sum arises immediately before it is paid. The amount of a BCE6 is the amount of the lump sum paid. When you are under 75 you can receive an uncrystallised funds pension lump sum only where at the time it is paid you have more lifetime allowance remaining than the amount of the lump sum. Any lump sum paid in excess of the individual's remaining lifetime allowance will not be an uncrystallised funds pension lump sum, but will be a lifetime allowance excess lump sum. See Lifetime allowance.

Example 6

In April 2015 Liz, aged 65, has remaining lifetime allowance of £300,000. She also has £400,000 in a money purchase arrangement which she wants to take now.

Liz can choose to take an uncrystallised funds pension lump sum of £300,000, which will use up all her remaining lifetime allowance. £75,000 of this will be paid tax-free and £225,000 will be subject to income tax. Liz can receive her remaining £100,000 as a lifetime allowance excess lump sum, which will be taxable at 55%.

If you are aged 75 or over when the lump sum is paid, you must have at least some lifetime allowance remaining at that time, otherwise the lump sum is not an uncrystallised funds pension lump sum. If your lump sum is fully within your remaining lifetime allowance, you receive 25% of the lump sum tax-free and the remainder is taxable as pension income. But if the amount of the lump sum is more than your remaining lifetime allowance, there is a restriction on the amount that you can take tax-free. The tax-free part of the lump sum will be an amount equal to 25% of the amount of lifetime allowance remaining. The rest of the lump sum is taxable as pension income.

Example 7

Marmaduke is 80 years old and wants to take all the remaining funds out of his money purchase arrangement. His previous pension statements show that he has already used up a total of 90% of his lifetime allowance which is the standard lifetime allowance and for the purposes of this example is £1.25 million at the time the lump sum is paid.

Marmaduke therefore has 10% of his lifetime allowance remaining, or £125,000. But the amount he wants to take is £150,000. The amount he can receive free of tax is therefore £31,250 (25% of £125,000). The remaining £118,750 of the £150,000 is taxable as pension income at his marginal rate.

3.13 What happens if I only have a final salary (defined benefit) pension?

You can not receive a lifetime annuity, a drawdown pension of any kind or an uncrystallised funds pension lump sum from a defined benefit arrangement.

3.14 Will there be any changes to trivial commutation lump sums/small pot lump sums?

Small pots

The main change to the small pots rules is that from 6 April 2015 this type of lump sum may be paid to an individual from normal minimum pension age (normally age 55 unless you have a protected pension age) or where the ill-health condition is met, rather than from age 60 as at present. Under the ill-health condition, a member may take benefits at any age where the scheme administrator accepts qualified medical advice to the effect that the member is, and will continue to be, medically incapable of continuing his or her current occupation and as a result of the ill-health actually ceases to carry on the occupation.

For more information about the ill-health condition, see RPSM08100070.

Trivial commutation lump sums

From 6 April 2015, you will not be able to receive a trivial commutation lump sum from a money purchase arrangement. The introduction of the uncrystallised funds pension lump sum provides an alternative way to withdraw all of the funds from a

money purchase arrangement, so the trivial commutation lump sum will become redundant.

From 6 April 2015 you will still be able to take a trivial commutation lump sum from a defined benefits arrangement. However from 6 April 2015 the requirement that it must extinguish all the pension rights under that scheme will be amended, and the requirement will be that it must extinguish all defined benefits rights under that scheme.

See Taking smaller pension pots as lump sums.

3.15 My scheme rules don't allow me to receive all of these new payments

The legislation will include a scheme rules override. This will allow scheme trustees or managers to make payments within these new rules should they wish without having to change the scheme rules. However scheme trustees or managers will not have to make these payments if they choose not to do so

3.16 What about death benefits?

On the death of a member, death benefits can be paid as a dependants' pension and/or as a lump sum death benefit.

3.17 What are the changes to dependants' pensions?

From 6 April 2015, similar changes to the rules for dependant's annuities and dependants' drawdown pensions are being made to those for a lifetime annuity, and a member's drawdown pension.

Dependants' annuities

For annuities purchased on or after 6 April 2015 there will no longer be a requirement that;

- the member or the dependant must have been given the option to choose the insurance company providing the annuity; or
- the annual rate of the annuity cannot go down; the annual rate of a dependant's annuity will be able to go down as well as up.

Dependants' drawdown pensions

Dependants will have the same options as members for drawdown pensions, as follows;

- Designations after 5 April 2015 under an arrangement where there is no pre April 2015 dependants' drawdown pension fund will be to a dependants' flex-access drawdown fund;
- Existing dependants' drawdown pension funds paying flexible dependants' drawdown pension will convert to a dependants' flexi-access drawdown fund on 6 April. Any designations on or after that date to that pre-existing drawdown

pension fund will be into the converted dependants' flexi-access drawdown fund;

- Dependants may convert existing dependants' drawdown pension funds paying capped dependants' drawdown pension into dependants' flexi-access drawdown fund in a similar way to members. That is they either notify their scheme administrator they intend to convert the fund or they take dependants' drawdown pension of more than the annual maximum amount for capped drawdown. Any designations to the fund after it has converted will be to a dependants' flexi-access drawdown fund;
- Dependants can choose not to convert their existing capped dependants' drawdown pension funds. Any further designations under the arrangement will be to the existing capped dependants' drawdown pension fund. The cap on the maximum amount of dependants'' drawdown pension that can be paid will continue to apply. Scheme administrators will still need to carry out regular reviews and calculations of the maximum annual amount in line with the existing requirements.

However there is one significant difference between members' drawdown and dependants' drawdown. Payment from a dependant's flexi-access drawdown fund will not trigger application of the money purchase annual allowance rules. Only if the individual has also received, in relation to their own pension savings, an uncrystallised funds pension lump sum or is also receiving member's flexi-access drawdown benefits will the money purchase annual allowance rules apply to them.

3.18 Why are there flexi-access drawdown funds for dependants when they don't trigger the money purchase annual allowance?

The payment of drawdown pension from a dependant's flexi-access drawdown fund will not trigger the money purchase annual allowance rules. However any payments from a dependants' flexi-access drawdown fund do have to be taken into consideration if the dependant is temporarily non-resident to see whether their withdrawals exceed £100,000.

3.19 What are the changes to lump sum death benefits?

Where funds have been designated as available for drawdown on or after 6 April 2015 to a flexi-access drawdown fund, any unused funds on the death of the member can be paid as a flexi-access drawdown fund lump sum death benefit. This also applies where the member had a flexible drawdown pension fund before 6 April 2015 which automatically became a flexi-access drawdown fund on that date.

Any unused funds on the death of the member on or after 6 April 2015 from a pre-6 April 2015 capped drawdown pension fund that has not converted to a flexi-access drawdown fund can be paid as a drawdown pension fund lump sum death benefit as at present.

The conditions for the payment and the taxation of a flexi-access drawdown fund lump sum death benefit are the same as for the payment of a drawdown pension fund lump sum death benefit. See RPSM10106060 for further information on drawdown pension fund lump sum death benefits.

As with a drawdown pension fund lump sum death benefit, a flexi-access drawdown fund lump sum death benefit can be paid to anyone, and the maximum that can be paid is the value of the flexi-access drawdown fund at the time the lump sum is paid.

Some changes have been made to the conditions for paying a trivial commutation lump sum death benefit - see chapter 10 of this guidance.

There have also been some changes to the tax treatment of certain lump sum death benefits – see chapter 7 of this guidance.

3.22 Can an uncrystallised funds pension lump sum be paid on the death of a member to another person?

No, an uncrystallised funds pension lump sum can be paid only to the member.

Chapter 4 - The money purchase annual allowance rules

The money purchase annual allowance rules have been introduced to ensure that individuals do not use the new flexibilities, which are intended to provide people with greater access to their retirement savings, to avoid tax on their current earnings by diverting their salary into their pension with tax relief, and then immediately withdrawing 25% tax-free.

4.1 What are the money purchase annual allowance rules?

If you trigger the money purchase annual allowance rules, then you will have a £10,000 annual allowance for money purchase pension savings. If you exceed this £10,000 limit, you will have in addition to the £10,000 money purchase annual allowance, a reduced £30,000 annual allowance for your defined benefits pension savings. If you do not exceed the £10,000 limit you will retain the normal £40,000 annual allowance for all your pension savings.

If you trigger the money purchase annual allowance rules and exceed the £10,000 money purchase annual allowance in any tax year,

- you will be subject to the annual allowance charge on your money purchase pension savings in excess £10,000, (see RPSM06105020), and
- your annual allowance for the remainder of your pension savings, that is any defined benefits savings, will be reduced to £30,000 (the 'alternative annual allowance') plus any unused annual allowance you have to carry forward from the three previous tax years. To ensure that the same savings are not subject to the annual allowance twice, any pension savings tested against the £10,000 money purchase annual allowance will not be tested against your reduced £30,000 annual allowance.

If you do not exceed the £10,000 money purchase annual allowance,

- your total annual allowance, including for money purchase and defined benefit arrangements, will continue to be £40,000 plus any unused annual allowance carried forward from the three previous tax years,
- you will not be able to carry forward any unused money purchase annual allowance.

4.2 What are the trigger events?

The money purchase annual allowance rules will apply to you if one of the following occurs in a tax year, on or after 6 April 2015;

- you drawdown funds from a flexi-access drawdown fund, including receiving payments from a short-term annuity provided from a flexi-access drawdown fund;
- you receive an uncrystallised funds pension lump sum;

- you notify your scheme administrator that you wish to convert your pre-6 April 2015 drawdown pension fund to a flexi-access drawdown fund and you subsequently take a drawdown pension from that fund;
- you take more than the permitted maximum for capped drawdown from a pre-6 April 2015 drawdown pension fund;
- you receive a stand-alone lump sum and you are entitled to primary protection with a greater than £375k protected tax free lump sum right;
- you receive a payment from a lifetime annuity where the annual rate of payment can be decreased other than in permitted circumstances; or,
- you receive a payment of a scheme pension from a money purchase arrangement where the arrangement is providing scheme pensions to less than 12 members, including dependant's, at the time the first payment is made to you.

Payment of one of the types of benefits listed above from an overseas pension scheme that has benefitted from tax relief will also be a trigger event for the purpose of the money purchase annual allowance rules. So if, for example, a member transferred their pension rights to a QROPS and on or after 6 April 2015 designated funds into what under a registered pension scheme would be flexi-access drawdown, the member has triggered the money purchase annual allowance rules.

In addition you will be subject to the money purchase annual allowance rules from 6 April 2015 if before 6 April 2015 a scheme administrator accepts a valid declaration that you meet the flexible drawdown conditions.

Example 8

David is a member of a money purchase arrangement and a defined benefit arrangement and has flexibly accessed his money purchase arrangement in the tax year. David's total savings to his money purchase arrangement for the tax year are £6,000. As this amount is not more than £10,000 there is no test against the money purchase annual allowance for the tax year concerned.

His total pension savings are therefore tested against the £40,000 annual allowance. David's total defined benefit pension savings are £32,000. This means his total pension savings for the tax year are £38,000. As this is less than £40,000, no annual allowance charge is due, and he has £2,000 unused annual allowance to carry forward to the next year.

Assuming David had no other annual allowance to carry forward from previous years, the next year he will have an overall annual allowance of £42,000 but his money purchase annual allowance remains £10,000.

Example 9

Isobel is a member of a money purchase arrangement and a defined benefit arrangement and has flexibly accessed her money purchase arrangement in the previous tax year. She has no available carry forward. Isobel's total defined benefit pension savings for the tax year are £28,000 and her total savings to her money purchase arrangement are £11,000. As this is more than £10,000, her tax relief for the money purchase pension savings may be restricted by the money purchase annual allowance.

Isobel must now work out whether she is liable for an annual allowance charge on a 'chargeable amount'.

In this example, it is easy to see that as Isobel's money purchase pension savings have exceeded £10,000 she is liable to an annual allowance charge on the excess of £1,000. However as her remaining defined benefits savings are less than £30,000, no annual allowance charge arises in respect of these. Isobel is therefore liable to an annual allowance charge on £1,000 (her chargeable amount).

The legislation however sets this out in a number of steps which are as follows;

The chargeable amount is the higher of

- *the default chargeable amount which is the excess of Isobel's defined benefits pension savings plus money purchase pension savings over the annual allowance (£40,000), and*
- *the alternative chargeable amount which is the total of the excess of Isobel's defined benefit pension savings over the alternative annual allowance (£30,000) plus the excess of money purchase savings over the money purchase annual allowance (£10,000)*

That is

- *The excess of £28,000 + £11,000 over £40,000 = £0 (the default chargeable amount) or,*
- *£11,000 - £10,000 = £1,000 plus the excess of £28,000 over £30,000 (nil) = £1,000 (the alternative chargeable amount)*

In Isobel's case, the alternative chargeable amount is more than the default chargeable amount so the alternative chargeable amount applies.

Isobel will therefore be liable to an annual allowance charge on her chargeable amount of £1,000.

See Annual allowance for further information on the current annual allowance rules.

4.3 What payments don't trigger the Money Purchase Annual Allowance rules?

The Money Purchase Annual Allowance rules will not apply if one of the following occurs;

- you receive a pension commencement lump sum;
- you receive a trivial commutation lump sum;
- you receive a small pots lump sum;
- you are in receipt of a scheme pension from a defined benefits arrangement, or from a money purchase arrangement where at least 12 people are receiving a scheme pension ;
- you are in receipt of a lifetime annuity that can't go down except in prescribed circumstances; or,
- after 6 April 2015, you take no more than the permitted maximum for capped drawdown from a pre-6 April 2015 drawdown pension fund.

Example 10

Karen has a small non-occupational money purchase pension pot of £8,000 in one scheme which she wants to access as a lump sum.

As her savings in that scheme are less than £10,000 she can take the whole amount as a small pots lump sum, providing she has not received three such lump sums from non-occupational schemes before. This can be paid 25% tax free with the remainder of £6,000 taxable as income. Taking a small pot lump sum would not trigger the money purchase annual allowance rules.

If Karen has previously had three small pot lump sums from non-occupational schemes then she could not receive a further small pot lump sum. Karen can still take the £8,000 as an uncrystallised funds pension lump sum, which will also be 25% tax free and 75% taxable as income. However the payment of an uncrystallised funds lump sum will trigger the money purchase annual allowance rules. Karen's money purchase pension savings would then be subject to the money purchase annual allowance if she saves more than £10,000 into money purchase arrangements in a year and her alternative chargeable amount is more than her default chargeable amount.

4.4 So how do the rules work in the tax year the trigger event occurs?

If you have a trigger event in a tax year then you become subject to the money purchase annual allowance rules from the day after the trigger event occurred. The amount of any annual allowance charge due will depend on whether your total money purchase pension savings exceed £10,000, and whether in addition your alternative chargeable amount is more than your default chargeable amount.

For the purpose of the annual allowance generally, pension savings in a particular arrangement count for the pension input period for that arrangement that ends in a particular tax year. Each successive pension input period must end in consecutive tax years, but pension input periods do not have to match tax years.

So when a trigger event occurs in a tax year there are a number of possible situations for pension input periods that may be affected

1. There may have been a pension input period that has already ended in the tax year. For example a pension input period runs from 1 October 2015 to 30 September 2016 and a trigger event occurs on 1 November 2016.
2. There may be a pension input period that will end in the tax year but hasn't ended when the trigger event occurs. For example a pension input period runs from 1 January 2015 to 31 December 2015 and a trigger event occurs on 1 December 2015.
3. There may be a pension input period ending in the next tax year, for example a trigger event occurs on 1 March 2016 where the pension input period runs 1 January to 31 December 2016.

In the first year that the money purchase annual allowance rules apply to you, any money purchase savings that you have made prior to triggering the rules will not be subject to the money purchase annual allowance.

So where the first situation arises then for the purposes of the £10,000 money purchase annual allowance the pension input amount for the money purchase arrangement is treated as nil. However the whole of the pension input amount for this

arrangement is included in the defined benefit input amount (DBIST) for the purposes of testing against the annual allowance.

Where the second or third situation arises, the pension input amount is split into two, the amount that arose up to and including the date of the trigger event, and the amount that arose after the trigger event. Only the latter that is tested against the money purchase annual allowance. The way that the pension input amount is split depends on the type of arrangement

- Where the money purchase arrangement is not a cash balance arrangement, that is, it is a defined contribution arrangement, this split is based on the contributions for each period.
- Where the money purchase arrangement is a cash balance arrangement, then the pension input amount for the arrangement is split proportionally so that if the pension input period is 365 days and the trigger event occurred 100 days before the last day of the pension input period, then the pension input amount that is tested against the money purchase annual allowance is 100/365 times that pension input amount.

Example 11

On 1 November 2015, Bruce took a payment from his flexi-access drawdown fund. This triggers the money purchase annual allowance rules.

Bruce has two defined contribution money purchase arrangements. The first has a pension input period of 1 October to 30 September and the second from 1 January to 31 December. Bruce contributes £400 per month to the first arrangement and £600 per month to the second arrangement on the 15th of each month.

As the pension input period for the first arrangement ends before the trigger event, the 12 contributions of £400 that are tested against the 2015-16 annual allowance are not tested against the money purchase annual allowance.

As the pension input period for the second arrangement ends after the trigger event, the two contributions of £600 paid in November and December are tested against the money purchase annual allowance.

If Bruce has no other savings, his money purchase input amount that is tested against the £10,000 money purchase annual allowance is £1,200. As this is less than £10,000, all his savings are tested against the £40,000 annual allowance for 2015-16. As these savings total £12,000, these are less than £40,000 and Bruce does not have to pay any annual allowance charge.

Note that if Bruce had started a new money purchase arrangement after 1 November 2015 but before 5 April 2016 and therefore within tax year 2015-16, the pension input period for that arrangement would normally end on 5 April 2016 and contributions to that arrangement would count for the total money purchase input for 2015-16, unless a later end date was nominated for the pension input period.

Example 12

Wayne triggers the money purchase annual allowance rules on 15 September 2015. He has two arrangements, a cash balance arrangement and a defined contribution money purchase arrangement.

The pension input periods for the arrangements are for twelve months and end on 15 February 2016 and 31 March 2016 respectively.

Wayne's pension input amount for his cash balance arrangement for the pension input period ending 31 March 2015 is £12,000. Wayne also makes two payments to his other money purchase arrangement of £15,000 on 1 July 2015 and £8,000 on 1 February 2016.

For the purposes of his 2015-16 money purchase annual allowance, his pension input amount for the cash balance arrangement is £12,000 x 153 (the number of days from 16 September 2015 (the day after flexible access) to 15 February 2016 divided by 365 (days in the pension input period) = £5,030.

For the purposes of his 2015-16 money purchase annual allowance, his pension input amount for the other money purchase arrangement is the contributions paid on or after 16 September 2015, that is £8,000.

Wayne's total money purchase input amount for 2015-16 is therefore £13,030. As this exceeds £10,000 he now has to work out whether his alternative chargeable amount is more than his default chargeable amount.

In Wayne's case, he has no defined benefit inputs so his alternative chargeable amount is the excess money purchase input of £3,030.

The default chargeable amount is the excess of the total pension input amount calculated under the normal rules over £40,000 (the normal annual allowance for the year).

This gives a figure of £35,000. This is within the normal annual allowance of £40,000, so the default chargeable amount is nil.

So in Wayne's case his alternative chargeable amount is higher than his default chargeable amount and the annual allowance charge will be applied to his alternative chargeable amount of £3,030.

4.5 Individuals who have received a flexible drawdown payment before 6 April 2015

If you made a valid flexible drawdown declaration before 6 April 2015 that has been accepted, then under the pre-6 April 2015 (current) rules you effectively have a nil annual allowance for all types of pension savings (both money purchase and defined benefits).

On 6 April 2015, your fund will automatically become a flexi-access drawdown fund and you will be subject to the money purchase annual allowance rules from that date. Your annual allowance will be the same as that of anyone else who has triggered the money purchase annual allowance rules. Therefore for tax years 2015-16 onwards, you will have a £40,000 overall annual allowance with a £10,000 limit on tax relieved money purchase savings.

You will not be able to carry forward any unused annual allowance for any tax years prior to 2015-16 from the tax year you first took a flexible drawdown payment.

Example 13

Edward took a payment of £75,000 through flexible drawdown on 1 March 2012. Since then, he has therefore had a nil annual allowance. He is a member of only

one money purchase arrangement with a pension input period of 1 January to 31 December.

On 6 April 2015, his annual allowance for 2015-16 reverts to £40,000 but with a £10,000 limit on tax relieved money purchase savings. As his flexible access occurred in 2012-13 which is three tax years before 2015-16, he therefore has no carry forward from the three tax years prior to 2015-16. His pension input period starting on 1 January 2015, will end in tax year 2015-16 so any savings to this arrangement in the period 1 January 2015 to 31 December 2015 will be tested against his 2015-16 annual allowance. He can therefore contribute up to £10,000 each year on or after 1 January 2015 without being subject to the annual allowance charge in relation to those contributions.

4.6 Are there any changes to the current recycling of tax free lump sum rules?

Recycling of a tax free lump sum involves using that lump sum as the means to increase contributions significantly to a registered pension scheme. The current recycling rule is intended to prevent the systematic exploitation of the tax rules to generate artificially high amounts of tax relief by using the tax free lump sum to make a further, tax relieved, contribution to a registered pension scheme. See RPSM04104920.

A change will be made from 6 April 2015, so that this rule applies where the amount of the pension commencement lump sum, taken together with any other such lump sums taken in the previous 12 month period, exceeds £7,500, not 1% of the lifetime allowance as at present.

4.7 If I have an annual allowance charge because my money purchase input is greater than £10,000, can I use scheme pays?

There are in effect no changes to when you can ask your scheme to pay your annual allowance charge in return for an actuarial reduction in your benefits.

Where your pension savings exceed £40,000 in a particular scheme and your annual allowance charge is greater than £2,000 (but based on the existing annual allowance calculation), you can require your scheme to pay the annual allowance charge in return for a reduction in your benefits.

You will not be able to require your scheme to pay any annual allowance charge if your total pension savings are less than £40,000, although they may do so on a voluntary basis, in return for a reduction in your benefits.

4.8 How do I report any annual allowance charge?

You will need to tell HMRC, see RPSM06109010 for further information

Chapter 5 - Hybrid Arrangements

There are special rules for calculating the pension input amount for certain hybrid arrangements where the money purchase annual allowance rules apply. These are to prevent avoidance of the annual allowance charge through manipulation of the pension input amount in a hybrid arrangement.

However these special rules are likely to apply only in a very limited number of cases. This will be where;

- an individual has flexibly accessed their pension savings; and
- they have at least one hybrid arrangement that was set up in respect of that member on or after 14 October 2014 that could pay either money purchase or defined benefits; and
- where the defined benefits pension input amount for the hybrid arrangement would normally be the highest; and
- where the money purchase input sub-total (MPIST) is greater than £10,000.

5.1 What is a hybrid arrangement?

A hybrid arrangement is one where the decision as to whether the benefits to be provided will be defined benefits, cash balance benefits or other money purchase benefits has not yet been made and will be made at a later date. There are special rules for valuing savings in hybrid arrangements for the purposes of the annual allowance. See RPSM06107050 for further information.

5.2 What are the special rules?

If you have triggered the money purchase annual allowance rules, and you have a hybrid arrangement that was set up in respect of you on or after 14 October 2014, then when working out whether a relevant hybrid arrangement should be treated as a money purchase arrangement or a defined benefits arrangement, you must work out which gives the higher chargeable amount.

A relevant hybrid arrangement is one where the arrangement includes the option to provide defined benefits and the pension input amount calculated as if it were a defined benefits arrangement is higher than if it had been calculated as if it were a money purchase arrangement.

5.3 When are these special rules likely to apply?

They will only apply where you have a defined benefits/money purchase hybrid arrangement where the defined benefits pension input amount is higher than the money purchase pension input amount under the normal rules in section 237 FA 2004.

Where you only have one, or even two, such hybrid arrangement the calculation will normally be straightforward as it will be clear what the chargeable amount would be if you used the money purchase amount rather than the defined benefit amount.

If your hybrid arrangement has a higher money purchase pension input amount than the defined benefits pension input amount, the special rules do not apply and the

money-purchase pension input amount will always be included in the money-purchase input sub-total for the purpose of the money purchase annual allowance.

If the money purchase pension input amount is lower than the defined benefits pension input amount, the money purchase pension input amount may still be included in the money-purchase input sub-total for the purposes of the money purchase allowance under the special rules.

5.4 So what are the hybrid rules?

Where you have flexibly accessed your pension on or after 6 April 2015 then if you have one or more relevant hybrid arrangements, you will have to work out separately the pension input amount on each type of benefits that might be provided, and include in your annual allowance calculations the figure that would give rise to the highest annual allowance liability.

The rules only apply where you have a hybrid arrangement in which the pension input amount which would be used for annual allowance purposes under the normal rules is the defined benefits pension input amount (amount C) as opposed to the cash balance input amount (amount A) or the other money purchase input amount (amount B). See RPSM06107050 for pension input amounts under hybrid arrangements

You will need to calculate your default chargeable amount and your alternative chargeable amount taking into account all your arrangements, whether money purchase, defined benefit or hybrid arrangements.

To calculate the default chargeable amount, you first need to calculate your total pension input amount using the normal rules (see RPSM06107000). If this amount exceeds the normal annual allowance, (£40,000 plus any available carry forward), the amount of the excess is the default chargeable amount.

You also need to calculate whether there is an alternative chargeable amount and if so its greatest possible amount. The alternative chargeable amount is made up of the excess of the defined benefit input sub-total over the alternative annual allowance (the normal annual allowance less £10,000) and the excess of the money-purchase input sub-total over £10,000.

Where amount C is the same as amount A, amount B or the higher of amounts A and B (depending on the nature of the hybrid arrangement), the money purchase input amount is used for the purpose of establishing the alternative chargeable amount.

You then arrange all the relevant hybrid arrangements into as many different combinations of arrangements as possible, including a combination containing none of those arrangements, (an empty combination). So for example, if there are two relevant hybrid arrangements, there are four possible combinations.

You then work out for each combination what the money-purchase input sub-total would be if the greater of amount A and B were used as the pension input amount for each arrangement within the combination. You then use that figure in your calculation of the money-purchase input sub-total (adding in any money purchase input amounts from money purchase arrangements and non-relevant hybrid arrangements). You are then able to determine whether the resulting figure exceeds £10,000.

If this and all other combinations does not exceed £10,000, your chargeable amount is the default chargeable amount. If one or more combinations exceeds £10,000, you must then perform a further calculation.

Taking each combination in turn, you work out the alternative chargeable amount based on that combination. In doing so, you include in the defined benefit input sub-

total the Amount C for those relevant hybrid arrangements that have been left out of that combination. And you include in the money purchase input sub-total the amount A or B for those relevant hybrid arrangements that have been included in the set.

You then compare the results for each combination. The combination which produces the highest figure is the maximising set. The pension input amounts for those relevant hybrid arrangements in the maximising set are included in the money-purchase input sub-total rather than the defined benefit input sub-total. You calculate the alternative chargeable amount accordingly. If this amount is more than the default chargeable amount, you are liable to the annual allowance charge on the alternative chargeable amount.

Example 14

Pavel has one arrangement set up after October 2014 which may provide either a defined benefit or an other money purchase benefit when he retires. Under the normal annual allowance rules, Pavel must therefore calculate the pension input amount as if the arrangement had been a defined benefits as well as an other money purchase arrangement. He determines his defined benefits pension input amount for the arrangement would be £15,000, whilst his other money purchase pension input amount would be £12,000.

If Pavel was not subject to the money purchase annual allowance rules, the £15,000 pension input amount for this arrangement would be tested against the £40,000 annual allowance as this is the higher figure.

However, Pavel has an old money purchase pension fund that he has not contributed to for a few years. Last year, (that is before the latest pension input period started), Pavel flexibly accessed those funds. This means he is now subject to the money purchase annual allowance.

Pavel must therefore work out his default chargeable amount and his alternative chargeable amount.

His default chargeable amount is nil, because £15,000 (as above) does not exceed £40,000.

His alternative chargeable amount is found by calculating any excess of the defined benefit input sub-total over £30,000 (that is the alternative annual allowance of £40,000 less £10,000), and adding to this any excess of the money-purchase input sub-total over £10,000.

For the hybrid arrangement, the defined benefit input amount is higher than the money purchase input amount. This means that the arrangement is a relevant hybrid and that a further series of steps therefore needs to be carried out.

Pavel has only one hybrid arrangement. There are therefore two possible combinations, one containing the hybrid arrangement and one which is empty.

For the combination containing the hybrid arrangement, Pavel has to calculate the money purchase input. The money purchase input would be £12,000.

The combination excluding the hybrid arrangement has no money purchase input, but a £15,000 defined benefit input.

Of the two combinations, only the first results in a money purchase input over £10,000. So the alternative chargeable amount is worked out on this basis. The money purchase input for the hybrid arrangement is £12,000 and there is no input for the old money purchase pension fund. The money-purchase input sub-total is £12,000, and this exceeds £10,000 by £2,000. There is no defined

benefit input sub-total to add to this figure, so the alternative chargeable amount is £2,000.

£2,000 is more than the default chargeable amount of nil, so Pavel is liable for the annual allowance charge on £2,000.

Example 15

Angus has two hybrid arrangements set up after October 2014 which may provide either a defined benefit or an other money purchase benefit when he retires. Under the normal annual allowance rules, Angus must therefore calculate the pension input amounts two ways, as if those arrangements had been defined benefit as well as money purchase arrangements, and see which gives the higher pension input amount.

Angus also has a defined benefit arrangement and a money purchase arrangement.

Angus has previously flexibly accessed some of his pension rights which means he is now subject to the money purchase annual allowance rules. Angus does not have any carry forward.

	First Hybrid Arrangement	*Second Hybrid Arrangement*	*Money Purchase Arrangement*	*Defined Benefit Arrangement*
Defined Benefit PIA	*£20,000*	*£10,000*	*n/a*	*£15,000*
Money Purchase PIA	*£8,000*	*£4,000*	*£5,000*	*n/a*

Angus must therefore do certain calculations to see which combination gives the higher tax liability. He must work out his default chargeable amount and his alternative chargeable amount.

His default chargeable amount is any excess of the total pension input amount calculated in the normal way over the normal annual allowance (£40,000). Angus's total pension input amount is as follows

£20,000 + £10,000 + £5,000 + £15,000 = £50,000

This exceeds the annual allowance by £10,000. So Angus's default chargeable amount is £10,000.

This process also tells Angus for both his hybrid arrangements the defined benefit input is higher than the money purchase input. Both are therefore relevant hybrid arrangements. This means he needs to calculate if the money-purchase input sub-total exceeds £10,000 using the money purchase PIAs for each arrangement to calculate his greatest possible amount of alternative chargeable amount. This is then compared with the default chargeable amount.

His alternative chargeable amount will be found by calculating any excess of the defined benefit input sub-total over £30,000, and adding any excess of the money-purchase input sub-total over £10,000.

Because there are two relevant hybrid arrangements, there are four possible combinations, made up as follows –

Combination one – the first hybrid arrangement only

Combination two – the second hybrid arrangement only

Combination three – the first hybrid arrangement and the second hybrid arrangement

Combination four – leaving both of the hybrid arrangements out.

For combination one, the money-purchase input sub-total would be

£8,000 + £5,000 = £13,000

For combination two, the money-purchase input sub-total would be

£4,000 + £5000 = £9,000

For combination three, the money-purchase input sub-total would be

£8,000 + £4,000 + £5,000 = £17,000

For combination four, the money-purchase input sub-total would be

£5,000.

Of the four combinations, one and three result in a money purchase input over £10,000. This means that those two sets go forward for the next stage of calculations.

Combination one

Excess of money-purchase input sub-total over £10,000 = £3,000

Excess of defined benefit input sub-total £25,000 (2nd hybrid DB PIA plus DB PIA) over £30,000 = £nil

Alternative chargeable amount = £3,000

Combination three

Excess of money-purchase input sub-total over £10,000 = £7,000

Excess of defined benefit input sub-total £15,000 (DB PIA) over £30,000 = £nil

Alternative chargeable amount = £7,000

Combination 3 is the highest so this is his alternative chargeable amount.

£7,000 is however less than the default chargeable amount of £10,000, so Angus will be liable for the annual allowance charge on basis of the default chargeable amount of £10,000.

5.5 What about hybrid arrangements set up before 14 October 2014?

Where the hybrid arrangement in respect of the member was set up before 14 October 2014, you do not need to do the above calculations. When working out whether the chargeable amount is the alternative chargeable amount or the default chargeable amount, input amount A, B or C as mentioned in section 237 should be used as appropriate within the money-purchase input sub-total and the defined-benefit input sub-total. See RPSM06107050 for more information about input amounts A, B and C.

Chapter 6 - Where benefits have been taken at 5 April 2015

Any pension from a money purchase arrangement that you started to receive before 6 April 2015 will continue to be subject to the tax rules that applied before that date.

- Lifetime annuity See RPSM09101700
- Drawdown pension See RPSM09103500
- Scheme pension See RPSM09101400

As these pensions will be in payment at 6 April 2015, you will not be able to receive an uncrystallised funds pension lump sum from any of these pensions.

If you have designated funds into a capped drawdown pension fund under an arrangement before 6 April 2015, and that arrangement also holds uncrystallised rights, any further designations on or after 6 April 2015 will be to the existing capped drawdown pension fund, not to a flexi-access drawdown fund. The existing tax rules (including the cap on pension payments) will continue to apply to those post 5 April 2015 designations. However if you exceed the cap your drawdown pension fund will automatically become a flexi- access drawdown fund before the payment that took you over the cap. In addition, you will be able to convert an existing pre April 2015 drawdown pension fund to a flexi-access drawdown fund.

6.1 What happens if I have taken flexible drawdown from my drawdown fund before 6 April 2015?

If before 6 April 2015 a scheme administrator accepts a valid declaration that you meet the flexible drawdown conditions, the money purchase annual allowance rules will apply to you.

They will apply from 6 April 2015.

6.2 What happens if on or after 6 April 2015 I take more than the permitted maximum from my pre 6 April capped drawdown pension fund?

On or after 6 April 2015, if at any time during a drawdown pension year, the total amount you take exceeds 150% of the basis amount for that drawdown year, then immediately before the payment that will take you over the limit, your pre 6 April 2015 capped drawdown pension fund will automatically become a flexi-access drawdown fund.

This means that the payment that would have taken you over the limit will be from the flexi-access drawdown fund, and so

- It will be an authorised payment and taxable as pension income, and
- It will trigger the money purchase annual allowance rules.

6.3 Can I change my pre 6 April 2015 drawdown pension fund to a flexi-access drawdown pension fund?

If your drawdown pension is a flexible drawdown pension it will convert automatically to flexi-access drawdown on 6 April 2015. The money purchase annual allowance rules will apply to you from 6 April 2015.

There will be two ways in which you can convert your existing capped drawdown pension into a flexi -access drawdown fund;

1. By taking more than the maximum capped drawdown pension. If the money purchase annual allowance rules don't already apply to you, they will apply to you from the date of the payment that takes you above the maximum capped drawdown amount.
2. By notifying your scheme administrator that you wish to convert the fund to a flexi-access drawdown pension fund. A notification can be made from the date of Royal Assent to the Bill but it will not be effective until 6 April 2015. If the notification is made on or after 6 April 2015 the fund will convert to flexi-access when your scheme administrator accepts your notification. The money purchase annual allowance rules will apply to you from the date you take a payment from your newly converted flexi-access drawdown fund, if they don't already apply to you.

A dependants' drawdown pension can be converted to dependants' flexi-access drawdown in the same way as a member can convert their drawdown pension to flexi-access drawdown

Chapter 7 – Tax charges on death benefits

7.1 Introduction

Clause 2 of the Bill makes a number of changes to the tax rates that apply when a lump sum death benefit is paid on the death of a member.

Further changes to the legislation will be introduced at a later stage in connection with the announcement by the Chancellor on 29 September 2014.

7.2 Special Lump Sum Death Benefits Charge

From 6 April 2015;

- The special lump sum death benefit charge under section 206 of FA2004 will be 45%. This charge will apply only where the member at the time of their death was age 75 or older, and to lump sum death benefits paid on or after 6 April 2015.
- Any lump sum death benefit listed below that is paid where the member at the time of their death was under age 75 will be tax-free. This will apply to lump sum death benefits paid on or after 6 April 2015.

This applies to the following lump sum death benefits.

- A pension protection lump sum death benefit
- An annuity protection lump sum death benefit
- A drawdown pension fund lump sum death benefit
- A flexi-drawdown fund lump sum death benefit
- A defined benefit lump sum death benefit
- An uncrystallised funds lump sum death benefit

7.3 Serious ill-health lump sum charge

From 6 April 2015;

- The serious ill-health lump sum charge under section 205A of FA2004 will be 45%. This charge will apply only where the member at the time the lump sum is paid was age 75 or older, and to lump sums paid on or after 6 April 2015.
- Any serious ill-health lump sum that is paid to a member at the time was under age 75 will continue to be tax-free.

Chapter 8 – Reporting

8.1 Introduction

The new reporting requirements are set out in Part 6 of the Bill. Changes are being made to the Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567) introducing new reporting requirements for members and scheme administrators.

There will be the following new requirements where a member has flexibly accessed their pension funds:

- The scheme administrator must tell the member when they first flexibly-access their pension rights that they are now subject to the money purchase annual allowance rules and that the member must report this to other schemes of which they are a member;
- The member must tell all schemes of which they are a member that they are subject to the money purchase annual allowance rules;
- The member must tell the scheme administrator of any new scheme that they join that they are subject to the money purchase annual allowance rules. This requirement does not apply where the individual became a scheme member as a result of a recognised transfer.
- Where there is a recognised transfer between registered pension schemes if the scheme administrator has reason to believe that the member has flexibly-accessed their pension rights they must tell the scheme administrator of the receiving scheme that money purchase annual allowance rules apply to the transferring member.
- If a member is subject to the money purchase annual allowance rules and has total pension input amounts under money purchase or hybrid arrangements under the scheme of more than £10,000, the scheme administrator must:
    - give the member a pension savings statement
    - notify HMRC via the Event Report of the member's details and pension input amounts

There are also a number of other changes to:

- remove the requirement for scheme administrators to provide annual BCE statements to members who no longer have any pension rights in that scheme;
- remove the current requirement for scheme administrators to report flexible drawdown payments to HMRC on the Event Report; and,
- amend various references to 'drawdown pension fund' to include 'flexi-access drawdown fund'.

8.2 Scheme administrator's notification to members when they first flexibly-access their pension fund

Members will need to be given enough information to understand their obligations as a result of flexibly-accessing their pension savings. HMRC will not be prescriptive about

the precise wording of the information given to the member but we want the scheme administrator to provide the following information to the member within 31 days of the member first flexibly-accessing their pension rights.

The scheme administrator must notify the member that they have flexibly-accessed their pension rights within 31 days beginning with the day of one of the following relevant events:

- Where a payment is made from funds designated into a flexi-access drawdown fund on or after 6 April 2015
- Where a payment is made from a capped drawdown pension fund that is in excess of the annual capped drawdown limit and so converts the fund into flexi-access drawdown
- The member is paid an uncrystallised funds pension lump sum
- The member is paid a stand-alone lump sum on or after 6 April 2015 from a money purchase arrangement in circumstances where article 25B(2) SI 2006/572 applies. (See RPSM03105155 for guidance on the conditions for paying a stand-alone lump sum in these circumstances.)

The scheme administrator doesn't need to send a notification if:

- they have previously sent one in relation to the member flexibly-accessing their pension rights under the scheme,
- the member has told them that they have flexibly-accessed their pension rights, or
- another scheme administrator had told them that the member has flexibly-accessed their pension rights.

Content of the scheme administrator flexible access notification

HMRC will not be prescriptive about the precise wording of the notification given to the member, but it must contain the following information; that

- the member has flexibly accessed their pension savings and the date of the relevant event
- If the member's total pension inputs into money purchase arrangements and certain hybrid arrangements is more than £10,000 for a tax year,
  - they will be liable to an annual allowance charge on the excess over £10,000, and
  - their annual allowance for pension inputs under other types of arrangements will be reduced by £10,000.
- the member must within 31 days, beginning with the day of receipt of the notice from the scheme administrator tell the scheme administrator of any other scheme that they are a member of that they have flexibly-accessed their pension rights and the date of that they did so;
- the member must, within 31 days of joining a new scheme after receiving this notification, tell the scheme administrator of the new scheme that they have flexibly-accessed their pension rights and the date of that they did so. The member doesn't need to tell the new scheme administrator if they joined the scheme as the result of a recognised transfer from another registered pension scheme.

8.3 Scheme administrator's notification when making a transfer

A scheme administrator must provide information about the member’s flexible access if they make a transfer of pension rights in respect of a member that have reason to believe has flexibly-accessed their pension. This could be because the member has flexibly-accessed their pension rights under the scheme, or they have been told by the member or another scheme administrator that the member has flexibly-accessed their pension. The transferring scheme administrator must tell the receiving scheme administrator:

- that they have reason to believe that the member has flexibly-accessed their pension rights before the transfer, and
- the date on which they understand the member to have first flexibly-accessed their pension rights

The information must be provided within 31 days beginning with the date of the transfer.

8.4 Pensions savings statements

Currently, a pension scheme administrator is required to send a member a pension savings statement when their pension input amount for all arrangements under that scheme exceed £40,000 for a tax year. This information normally has to be provided by 6 October after the end of the tax year.

A new requirement will be introduced for tax year 2015-16 onwards for individuals subject to the money purchase annual allowance rules. The scheme administrator must provide a pension saving statement to the member if:

- they have reason to believe that a member is subject to the money purchase annual allowance rules, and
- the member's total pension input amount in respect of all money purchase arrangements and hybrid arrangements under the scheme is more than £10,000.

Where these conditions have been met the scheme administrator must send the pension savings statement in line with the existing timetable for sending pension savings statements (that is normally no later than 6 October after the end of the tax year - see RPSM06107510) and it must contain the information set out below.

A member may satisfy both the conditions above but also have total pension input amounts under the scheme of more than £40,000 so that the scheme administrator is already required to send them a pension savings statement. In these circumstances the pension savings statement should contain the information set out below, rather than the standard information describes at RPSM06107510.

Money purchase pension savings statement - required information

The scheme administrator must provide information about the pension input amounts under the scheme split into the following groups

Money purchase inputs

The total pension input amount under:

- all money purchase arrangements, and
- all hybrid arrangements where the highest relevant input amount is input amount A (cash balance) or input amount B (other money purchase benefits) - see RPSM06107050.

Defined benefits inputs

The total pension input amount under:

- all defined benefits arrangements, and
- all hybrid arrangements made before 14 October 2014 where the highest relevant input amount is input amount C (defined benefits)

Relevant hybrid inputs

Where the hybrid arrangement was made, on or after 14 October 2014, or became a hybrid arrangement on or after that date and the highest relevant input amount is input amount C (defined benefits).

For each such arrangement which input amounts A, B and C are possible input amounts under the hybrid arrangement and the amount of each of the possible input amount.

The statement should also advise the member of:

- The fact that the member's money purchase pension input amounts will be tested against a £10,000 annual allowance
- The amount of the reduced annual allowance for non-money purchase arrangements for the current tax year. So if the standard annual allowance was £40,000 this amount would be £30,000.
- The fact that the member's money purchase pension input amounts could have been tested against a £10,000 annual allowance for any of the previous three tax years if these are not earlier than 2015-16.
- The amount of the unused reduced annual allowance for non-money purchase arrangements for the previous three tax years. Where any of these years is earlier than 2015-16 the amount of the unused standard annual allowance should be provided.
- For each of the previous tax years the pension input amounts split into the three groups A, B and C described above or the total amount of the pension input amounts under the scheme s appropriate to the tax year.

Pension savings statements requested by members

Currently a member can ask the scheme administrator to give them a pension savings statement even if their total pension input amounts under the scheme are not more than £40,000.

A member will be able to ask the scheme administrator to provide them with a pension saving statement prepared on the basis of a money purchase pension savings statement described above.

The existing timetable for providing pension savings statements on request - as described in RPSM06107520 - will apply.

8.5 Pension statement reports to HMRC

Currently a scheme administrator must tell HMRC when they are required to issue a pension savings statement to the member. This is reportable event 22 on the Event Report - see RPSM12301100.

When reporting events for the 2015-16 tax year and subsequent tax years, reportable event 22 only covers members who have a pension savings statement because their total pension amount under the scheme is more than £40,000 and either

- the money purchase annual allowance rules don't apply to them, or
- their total pension input amount to money purchase and hybrid arrangements under the scheme is not more than £10,000.

For 2015-16 Event Reports there will be a new reportable event 23 where the scheme administrator must provide the member with a money purchase pension savings statement because:

- the money purchase annual allowance rules apply to the member, and
- their total pension input amounts to money purchase and hybrid arrangement under the scheme is more than £10,000.

The scheme administrator will be required to provide all the following information for reportable event 23:

- The name and national insurance number of the member
- The tax year for which the pension savings statement is provided
- The pension input amounts for the money purchase group and the defined benefits group described above.

8.6 Obligations on members to notify flexible access

Members will need to inform all schemes that they are a member of, or that they join, that they have flexibly-accessed their pension savings.

Member has flexible drawdown pre 6 April 2015

A member who had gone into flexible drawdown before 6 April 2015 and has pension inputs under a money purchase arrangement or a hybrid arrangement must tell the scheme administrator of schemes they belong to that they flexibly-accessed their pension rights at the start of 6 April 2015 for the purposes of the annual allowance rules.

This notification must be made before the end of 31 days starting with the day that the pension inputs were made on or after 6 April 2015. So if the member had stopped building up benefits before 6 April 2015 as they went into flexible drawdown and started to build up benefits again on 1 June 2015 the 31 day clock starts on 1 June 2015. If on the other hand after going into flexible drawdown the member has restarted benefit build up and this was before 6 April 2015 the 31 day deadline starts on 6 April 2015.

The member doesn't need to notify the scheme administrator of a scheme under which they had flexible drawdown before 6 April 2015.

Where the member joins a new scheme the member must tell the scheme administrator of that new scheme that they have flexibly-accessed their pension rights

at the start of 6 April 2015 for the purposes of the annual allowance rules. However, the member doesn't need to tell the new scheme administrator if they joined the scheme as the result of a recognised transfer from another registered pension scheme. This is because the scheme administrator of the scheme from which they transferred will notify the scheme administrator of the new scheme. Where the member does have to notify the new scheme administrator they should do this within 31 days of joining the new scheme.

The member doesn't need to notify a scheme administrator if they have already told them that they have flexibly-accessed their pension rights under one of the other member notification requirements:

- Following notification by the scheme administrator of flexible access, or
- Conversion of capped drawdown to flexi-access drawdown.

Member converts capped drawdown to flexi-access drawdown

Member of other schemes: Where a member converts a capped drawdown pension fund to a flexi-access drawdown fund they must tell the scheme administrator of the other schemes they belong to that they have converted into flexi-access drawdown and the date of that conversion.

This notification must be made before the end of 31 days starting with the day that the member converted to flexi-access drawdown.

Joining a new scheme: Where the member joins a new scheme the member must tell the scheme administrator of that new scheme that they converted to flexi-access drawdown and the date of conversion. However, the member doesn't need to tell the new scheme administrator if they joined the scheme as the result of a recognised transfer from another registered pension scheme. Where the member does have to notify the new scheme administrator they should do this within 31 days of joining the new scheme.

The member doesn't need to notify a scheme administrator if they have already told them that they have flexibly accessed their pension rights under one of the other member notification requirements:

- Following notification by the scheme administrator of flexible access, or
- Building up pension rights following pre April 2015 flexible drawdown.

Member receives a notification from a scheme administrator

Member of other schemes

Where a member has received a flexible access notification from the scheme administrator in line with section 8.2 above they must tell the scheme administrator of any other schemes they belong to that they have received a scheme administrator flexible access notification and the date of the relevant event. Alternatively if they wanted to they could give them a copy of the scheme administrator flexible access notification.

This notification must be made before the end of 31 days starting with the day the member received the flexible access notification from the scheme administrator.

Joining a new scheme

If the member joins a new scheme they must tell the scheme administrator of that new scheme that they have received a scheme administrator flexible access notification and the date of the relevant event. Alternatively they could give them a copy of the scheme administrator flexible access notification. However, the member doesn't need to do this if they joined the scheme as the result of a recognised transfer from another registered pension scheme. Where the member does have to notify the new scheme administrator they should do this within 31 days of joining the new scheme.

The member doesn't need to notify a scheme administrator if they have already told them that they have flexibly-accessed their pension rights under one of the other member notification requirements:

- Conversion of capped drawdown to flexi-access drawdown, or
- Building up pension rights following pre April 2015 flexible drawdown.

8.7 Benefit crystallisation event (BCE) statements

Where a member is receiving a pension (including where they have designated funds into a drawdown pension fund but may not be drawing upon that fund) the scheme administrators must send a BCE statement to that member every year.

From 6 April 2015 where all the funds held in respect of the member under the scheme have been extinguished, and no further pension or lump sum payments can be made to that member, then the annual statement does not need to be sent to the member.

No change to the legislation is required for this, but HMRC guidance will be updated to reflect this point.

8.8 Reporting flexible drawdown payments

Currently reportable event 21 on the Event Report requires scheme administrators to report any payments of flexible drawdown. As flexible drawdown will no longer apply from 2015-16 this obligation will be removed for the 2015-16 Event Report.

There will no requirement to report flexi-access payments on the Event Report as this information is expected to be available to HMRC through Real Time Information.

8.9 Penalties

If the required information under SI 2006/567 is not provided to the timescales set out in the regulations, then the penalties in section 98 of the Taxes Management Act 1970 (TMA 70) apply.

That is, if the information is not provided on time, the person that should have provided the information is liable to a penalty of up to £300. Where information is not provided after the initial penalty, a further penalty of up to £60 per day may be applied until the information is provided.

If incorrect information has been provided a penalty of up to £3,000 may be due where that incorrect information has been negligently or fraudulently provided.

This is in line with the standard penalties for failure to provide information and the normal appeals processes with therefore apply.

8.10 Real Time Information (RTI)

In addition to the changes in the Bill, further changes to RTI reporting will be made shortly through secondary legislation. The changes are expected to have the following effect, although this is subject to change.

Payments from a flexi-access drawdown pension fund will be taxable as pension income of the recipient, although the provider may operate the emergency code in the first instance. In addition where an uncrystallised fund pension lump sum (UFPLS) is paid, then normally 75% of their payment will be taxable as pension income of the recipient.

Therefore there will be new reporting requirements for payments from flexi-access drawdown funds, from an UFPLS and other payments that will trigger the money purchase annual allowance rules. They will be in the same position as pensioners who currently have flexible drawdown. The payments will be private pension ('occpen') but they will be irregular payments.

Tax should be deducted by the pension provider where they make a payment from a flexi-access drawdown fund or from an UFPLS, using the emergency code unless they have or receive a P45 or tax code in respect of the member.

Where the pension provider makes a payment during the year that extinguishes the member's funds, when it is reported via RTI the pension provider should provide an end date, equal to the date of the payment, for the 'employment' in respect of that payment. That way HMRC will know that no further payments can be made from this source. This will then enable HMRC to make any appropriate repayments where possible during the tax year or, where necessary, as part of the end-of-year PAYE reconciliation process.

Where the pension provider makes a payment that does not extinguish the fund, after the end of the tax year HMRC may need to carry out end-of-year reconciliations to ensure the correct amount of tax has been paid. This will ensure that any repayment of tax due can be made after the end of the tax year.

However for those individuals who receive more than one payment during the year, adjustments will be made in-year through the tax code. So where pension payments are regular or are irregular but there is more than one payment during the tax year, the normal PAYE procedures will enable the pension provider to deliver any repayments of tax that have been over-deducted in respect of the first payment due to the pension provider operating the emergency code.

Reporting that a member has flexibly-accessed their pension savings

To enable HMRC to know which individuals have received flexibly-accessed pension savings, pension providers will need to provide HMRC with an additional bit of information under RTI about certain payments to individuals.

When reporting the payment of flexibly-accessed pension, the pension provider will be required to indicate that the payment is a flexible access payment under that arrangement to the individual. The payments that this relates to will therefore be;

- a payment in respect of a flexi-access drawdown fund;
- a payment of an uncrystallised funds pension lump sum;

- a payment of a stand-alone lump sum where the member was entitled to primary protection and had a protected tax free lump sum of greater than £375k at the time of the payment;
- a payment of a flexible annuity which can decrease other than in prescribed circumstances; or
- a payment of a money purchase scheme pension where there are less than 12 member’s receiving such a payment.

The pension provider will have to make this ‘flag’ on the RTI system each time the individual receives one of these payments from the pension provider.

Pension providers will be able to provide this information from 6 April 2015, but the requirement will not be mandatory until April 2016.

Chapter 9 – Overseas aspects

9.1 Introduction

Existing legislation provides for UK pension tax rules to apply certain pension schemes set up outside the UK. These schemes fall into two broad categories

1. Qualifying recognised overseas pension schemes (QROPS) - schemes that can receive transfers from registered pension schemes as authorised payments
2. Currently relieved non-UK pension schemes - where tax relief has been given on or after 6 April 2006 in respect of pension savings under the scheme. This may be due to migrant member relief, transitional corresponding relief, under a double taxation agreement or under section 307 ITEPA 2003.

Collectively, these schemes are known as relevant non-UK schemes (RNUKS). RPSM13102130 provides more information about RNUKS.

The Taxation of Pensions Bill provides for much more flexibility in how members of registered pension schemes access their money purchase savings. To maintain the comparability between registered pension schemes and RNUKS, changes have been made to the legislation that covers pension savings in overseas schemes.

In broad terms, this means:

- ensuring that a payment from an overseas scheme that would be an uncrystallised funds pension lump sum if paid from a registered pension scheme can be taxed as pension income;
- ensuring that flexibly accessing pension rights under an RNUKS will trigger the money purchase annual allowance rules, and ensuring they apply to rules;
- applying the new money purchase annual allowance to pension savings made under a currently relieved non-UK scheme;
- providing new powers to require scheme managers of overseas pension schemes, scheme administrator of registered pension schemes and individual members to provide information in prescribed circumstances;
- providing that the new £100,000 limit for payments received during periods of temporary non-residence is a total limit for payments from registered pension schemes and overseas schemes;
- delaying the start of the re-notification process for qualifying recognised overseas pension schemes (QROPS) until 6 April 2016; and,
- general modifications to align the tax treatment in relation to pension flexibility for registered pension schemes with those for overseas schemes.

9.2 The QROPS re-notification process

To be a QROPS, scheme managers must notify HMRC that the scheme meets the conditions to be a recognised overseas pension scheme (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 2014 in some cases.

RPSM13104085 provides further information about the QROPS re-notification process.

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 likely to take effect from 6 April 2015.

The start of the re-notification process is being delayed until 6 April 2016. This will allow 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.

9.3 Uncrystallised funds pension lump sum

From 6 April 2015, members of registered pension schemes can access some or all of their money purchase pension savings as a lump sum without first designating funds as available for drawdown. This is known as an uncrystallised funds pension lump sum (UFPLS). In simple terms, one quarter (25%) of the amount paid will be tax-free, with the remainder taxable as pension income. Section 3.12 of this guidance provides more information about the conditions for paying an UFPLS and how it will be taxed.

The Bill provides that the equivalent of an UFPLS paid from a RNUKS will be taxed in a similar manner as if it was paid from a registered pension scheme.

An UFPLS is taxable under the provisions of section 636(1A) and (1B) ITEPA 2003. The Bill adds these provisions to the list of member payment charges. This means that if, when the UFPLS is paid, the member is resident in the UK or had been in any of the previous five tax years they will be chargeable to UK tax on the UFPLS in the same way as if it had been paid by a registered pension scheme. Guidance on the operation of the member payment charges and member payment provisions starts at RPSM13102100.

So in the first instance an UFPLS will be subject to the member payment charges and will not be charged to UK tax under the foreign pension provisions of Chapter 4 Part 9 ITEPA 2003.

To be paid an UFPLS from a registered pension scheme the member must have available lifetime allowance. The amount of the member's available lifetime allowance also affects how an UFPLS is taxed. Modifications will be made to the lifetime allowance provisions to enable the payment, and correct tax treatment, of an UFPLS equivalent from a RNUKS. When calculating the member's available lifetime allowance for those purposes, the value of two benefit crystallisation events (BCEs) will be disregarded. They are:

- BCE 8, where there is a transfer from a registered pension scheme to a QROPS – see RPSM11104850; and
- the elected BCE where a member who has pension savings under an overseas pension scheme that have received UK tax relief elects to take their BCE at a date they have chosen – see RPSM13102570.

This will prevent a sum being allocated twice out of the lifetime allowance – once when the BCE took place and again when payment of the UFPLS equivalent is made.

9.4 Annual allowance

Background

The annual allowance can apply to pension savings (pension inputs) under an overseas pension scheme. The annual allowance will apply if tax relief is given:

- on contributions made on or after 6 April 2006 in respect of an individual under migrant member relief, transitional corresponding relief or a double taxation agreement, or
- under section 307 ITEPA 2003.

The normal annual allowance rules that apply to registered pension schemes apply to an overseas pension scheme for a tax year if tax relief has been given in respect of the member. There are two main adaptations when applying the annual allowance rules to overseas schemes; these are

4. the pension input period for an overseas pension scheme always corresponds to the tax year
5. the amount of a member's pension input only relates to the amount of their earnings that are chargeable to UK tax. To achieve this, the pension input amount is adjusted by an 'appropriate fraction' that is the proportion of the individual's earnings chargeable to UK tax compared to their total employment income. For more information see RPSM13102355.

Guidance on the application of the annual allowance charge to overseas pension schemes starts at RPSM13102300.

The new money purchase annual allowance rules

To ensure that individuals do not use the new pension flexibilities to gain unintended tax advantages, a reduced annual allowance has been introduced for money purchase savings where an individual has flexibly accessed their savings.

Chapter 4 provides more information about the new money purchase annual allowance rules. Section 4.2 sets out the events that trigger the application of the money purchase annual allowance rules. If a member has

- transferred benefits from a registered pension scheme into a QROPS, or
- benefitted from tax relief given on or after 6 April 2006 in respect of pension savings under an overseas pension scheme

and takes benefits from the overseas scheme in one of the forms listed at section 4.2, the member is classed as having flexibly accessed their pension rights for the purpose of the money purchase annual allowance rules.

There are special rules where a member first flexibly accesses their pension rights partway through the tax year. Section 4.4 of the guidance explains how a member's pension inputs amount are calculated for the purposes of the money purchase annual allowance rules.

Broadly speaking, those rules split the pension input amount into two: the amount that arose up to and including the date of the trigger event, and the amount that arose after the trigger event. When calculating the pension input amount under a currently relieved non-UK pension scheme the 'appropriate fraction' is calculated for

the tax year and that fraction applied to the pension input amounts for both the pre and post trigger event periods in the tax year.

9.5 Information requirements

Chapter 8 outlines the changes to the reporting requirements for registered pension schemes. The detailed reporting requirements for overseas pension schemes are still under consideration. However the Bill provides extra powers to prescribe information requirements in respect of overseas pension schemes.

The Bill gives HMRC the power to make regulations requiring

- a QROPS scheme manager to give information to
  - a scheme manager of another QROPS or former QROPS,
  - the scheme administrator of a registered pension scheme, and
  - a member or former member.
- Scheme administrators to provide information to QROPS scheme managers
- Member and former members of a relevant non-UK scheme (RNUKS) to give information to a registered pension scheme administrator or RNUKS scheme manager.

The scheme manager of a qualifying overseas pension scheme is required to provide HMRC with prescribed information about benefit crystallisation events under their scheme. The Bill confirms that the information requirements in respect of benefit crystallisation events include information about when a member first flexibly accesses their pension rights.

9.6 Periods of temporary non-residence

Where an individual:

- leaves the UK to take up residence abroad;
- later resumes UK residence within five tax years of the date they became UK non-resident; and
- is paid flexible drawdown from a registered pension scheme or an RNUKS (a relevant withdrawal) during the period of their temporary non-residence.

any pension will be taxed when the member becomes UK resident again. See EIM74052 for more details about how income tax is charged in those circumstances.

From 6 April 2015 the pension will only be taxed if the total relevant withdrawals from both registered pension schemes and RNUKS during the period of non-residence is more than £100,000. The list of relevant withdrawals from a RNUKS will be extended. From 6 April 2015 relevant withdrawals from a RNUKS include payments that if made from a registered pension scheme would be:

- drawdown pension (either as income withdrawals or short-term annuity) paid from a member's flexi-access drawdown fund
- drawdown pension (either as income withdrawals or short-term annuity) paid from a dependant's flexi-access drawdown fund
- withdrawals from a drawdown fund or dependants' drawdown fund where individual was entitled to flexible drawdown pension before 6 April 2015.

- lifetime or dependants' annuity to which the individual became entitled on or after 6 April 2015 where the contract either provides, or could provide, for the annuity payments to go down by more than the amount prescribed in SI 2006/568
- scheme pension paid under a money purchase arrangement that the individual became entitled to on or after 6 April 2016 and there were fewer than 11 other members (including dependants) receiving scheme pension.

A payment liable to tax under the member payment provisions but where the tax is not payable due to the operation of a double taxation agreement is also a relevant withdrawal.

If any relevant pension is not paid in sterling it is to be converted into sterling equivalent by using the average exchange rate for the year ending 31 March for all payments in the tax year containing 31 March. The average exchange rates are published on the HMRC website at http://www.hmrc.gov.uk/exrate/yearly_rates.htm.

Chapter 10 Other Changes

A number of other changes have been included in the draft legislation as a consequence of the new flexibilities.

10.1 Small pots

From 6 April 2015, a payment of a small pot lump sum of up to £10,000 under;

- regulations 11, 11A or 12 of the Registered Pension Schemes (Authorised Payments) Regulations 2009 (SI 2009/1171); or,
- article 23C(4) of the Taxation of Pension Schemes (Transitional Provisions) Order 2006 (SI 2006/572),

can be made any time after the member has reached normal minimum pension age, that is age 55, or if the member has one, their protected pension age under the protected pension scheme, or where the ill-health condition is met (see Chapter 2 for further information about the ill-health condition).

There will also be a change to regulation 10 of the Authorised Payments Regulations (SI 2009/1171) so that from 6 April 2015, it applies where a payment would have been an authorised payment under regulation 11, 11A or 12 but for the continuance after that payment of an annuity. Currently this regulation only applies where the payment would have been a trivial commutation lump sum.

10.2 Trivial commutation lump sums

From 6 April 2015, a trivial commutation lump sum can be paid only from a defined benefits arrangement.

From that date, it will be payable once the member has reached normal minimum pension age, that is age 55, or if the member has one their protected pension age under the protected pension scheme, or where the ill-health condition is met (see Chapter 2 for further information about the ill-health condition).

There is no change to how the member’s pension rights are valued to see if they are within the £30,000 trivial commutation limit. All the member's rights under registered pension schemes, both money purchase and defined benefits, must be included in the valuation.

There is also no change in the requirement that the lump sum must extinguish all of the member's entitlement to benefits under the whole scheme - not just the defined benefits arrangement within it.

Trivial commutation lump sum death benefits

A trivial commutation lump sum death benefit may also be paid after the member’s death to an individual in respect of any entitlement they had to receive any payments of an annuity guaranteed to be paid for the remainder of a minimum period.

The limit for a trivial commutation lump sum death benefit is also being raised from £18,000 to £30,000.

These changes will apply to trivial commutation lump sum death benefits paid on or after 6 April 2015 regardless of whether they are from money purchase or defined benefits arrangements.

10.3 Winding-up lump sum death benefits

Schemes will no longer be able to pay a winding-up lump sum death benefit from 6 April 2015. All payments that could prior to this date be paid as a winding-up lump sum death benefit will still be able to be able to be paid from this date as an authorised payment, but as a trivial commutation lump sum death benefit.

10.4 Lifetime annuity paid before the member reaches normal minimum pension age

Where an individual becomes entitled to the payment of a lifetime annuity before their normal minimum pension age or retiring due to ill-health there are special rules for when the BCE occurs and how that BCE is calculated - see RPSM11104560. After 5 April 2015, the amount of the BCE2 in respect of that annuity at the member's normal minimum pension age will be the greater of;

- the sums and assets used to purchase the lifetime annuity and any related dependants' annuity; and
- the amount that would have been crystallised as a scheme pension to which the member became entitled at normal minimum pension age. That is, the annual rate of the lifetime annuity on that date multiplied by 20.

10.5 Pre A-day drawdown pensioners

The lifetime allowance was introduced from 6 April 2006 (A-day) but pensions in payment before A-day are not subject to the lifetime allowance charge. However, if and when the first benefit crystallisation event (BCE) on or after A-day occurs in respect of that individual, the pre A-day drawdown pension is tested against the lifetime allowance at that time for the purposes of working out how much lifetime allowance the member has available.

As the maximum that can be paid as a capped drawdown pension was increased from 120 per cent to 150 per cent of the basis amount for pension years starting on or after 27 March 2014, limiting the amount tested to 80 per cent of this figure ensures that overall the amount of lifetime allowance used up is the same as before 27 March 2014.

Where the drawdown pension is a capped drawdown pension the value will be 25 times 80 per cent of the maximum annual amount that could have been paid as a capped drawdown pension on the date of the BCE.

Where before 6 April 2015 the pension is a flexible drawdown pension (see RPSM09103590), the value will be the 25 times the maximum annual amount that could have been paid as a capped drawdown pension at the point the member made the declaration for the pension to be a flexible drawdown pension. However if the flexible drawdown declaration was made in a drawdown pension year that began on or after 27 March 2014 the value will be 25 times 80 per cent of the maximum annual amount that could have been paid as capped drawdown pension.

Where the drawdown pension is being paid from a flexi-access drawdown fund and prior to 6 April 2015 it was not a flexible drawdown pension, the maximum amount is 25 times 80 per cent of the maximum amount of capped drawdown pension that could have been paid at the point the member's drawdown pension fund became a flexi-access drawdown fund.

Example 16

Anil was taking pension as income withdrawal from a personal pension scheme before 6 April 2006. This is now a capped drawdown pension fund. Anil also has other pension rights that he hasn't yet crystallised. In December 2016 Anil crystallises the remainder of his pension rights, this is his first BCE. Anil has to value his pre A-Day drawdown pension.

In May 2015, Anil had notified his scheme administrator that he wanted his drawdown pension fund to be converted to a flexi-access drawdown fund. The calculation of Anil's maximum annual amount is based on the maximum drawdown pension at the point Anil converted his pension to flexi-access drawdown.

In May 2015 the basis amount of Anil's drawdown pension is £24,000. His maximum annual amount is 150 per cent of £24,000 (£36,000). Eighty percent of the maximum annual amount is £28,800. So the amount of lifetime allowance used up by Anils' pre A-day pension is: 25 x £28,800 = £720,000

10.6 Periods of temporary non-residence

The rules that apply for taxing flexible drawdown pension whilst temporarily non-resident, (see RPSM09103260), will be changed. From 6 April 2015 the types of pensions affected by these rules will be extended to include:

- Any drawdown pension (either as income withdrawals or short-term annuity) paid from a member's flexi-access drawdown fund
- Any drawdown pension (either as income withdrawals or short-term annuity) paid from a dependant's flexi-access drawdown fund
- The part of an uncrystallised funds pension lump sum that is taxable as pension income
- Any withdrawals from a drawdown fund or dependants' drawdown fund where individual was entitled to flexible drawdown pension before 6 April 2015
- lifetime or dependants' annuity to which the individual became entitled on or after 6 April 2015 where the contract either provides, or could provide, for the annuity payments to go down by more than the amount prescribed in SI 2006/568
- scheme pension paid under a money purchase arrangement that the individual became entitled to on or after 6 April 2016 and there were fewer than 11 other members (including dependants) receiving scheme pension.

The pension will only be taxed when the member becomes UK resident again if the total withdrawals from registered pension schemes and relevant non-UK schemes during the period of temporary non-residence were more than £100,000.

If any relevant pension is not paid in sterling it is to be converted into sterling equivalent by using the average exchange rate for the year ending 31 March for all payments in the tax year containing 31 March. The average exchange rates are published on the HMRC website at http://www.hmrc.gov.uk/exrate/yearly_rates.htm.

Similar changes are being made to the rules that apply where the payment was from a relevant non-UK scheme. The amendments apply as if the payment had been made from a registered pension scheme.

10.7 Scheme Rules Override

The rules of many pension schemes will not allow payments to be made using the new flexible access provisions. The Bill includes a permissive scheme rules override in connection with the following payments

- drawdown pensions;
- purchase of a short- term annuity
- dependants' drawdown pensions;
- purchase of a dependants' short- term annuity;
- an uncrystallised funds pension lump sum.

The scheme trustees or manager will be able to choose whether or not to make any of these payments even if the scheme rules do not allow for this. Scheme trustees or managers will not be compelled to provide benefits using the new flexible access provisions.