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*Changes to legislation: There are currently no known outstanding effects for the Taxation of Pensions Act 2014, Part 4. (See end of Document for details)*

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## SCHEDULES

### SCHEDULE 1

#### PENSION FLEXIBILITY ETC

#### PART 4

#### ANNUAL ALLOWANCES

##### *Basic structure of the annual allowance charge*

- 63 (1) Section 227 of FA 2004 (pensions under registered pension schemes: annual allowance charge) is amended as follows.
- (2) In subsection (1) (imposition of the charge) for the words from “where” to the end substitute “ where an individual who is a member of one or more registered pension schemes has a chargeable amount for a tax year. ”
- (3) After subsection (1) insert—
- “(1A) The chargeable amount (if any) is to be determined in accordance with section 227ZA.”
- (4) In subsection (4) (basic calculation of charge) for the words in the first sentence after “in respect of” substitute “ the chargeable amount. ”
- (5) In subsection (4A) (the appropriate rate) for “excess” (in each place) substitute “ chargeable amount ”.
- (6) In subsection (5) (excess is not income) for “That excess” substitute “ The chargeable amount ”.
- (7) In subsection (6) (further provision)—
- (a) before the entry for section 228 insert—
- “sections 227ZA and 227B (chargeable amount),  
sections 227C to 227G (supplemental provision for calculations under section 227B),”
- (b) in the entry for section 229, for “229” substitute “ 229(1) ”, and
- (c) after that entry insert— “ section 229(2) to (4) (how to arrive at the pension input amount in respect of an arrangement), ”.
- (8) The amendments made by this paragraph have effect for the tax year 2015-16 and subsequent tax years.
- 64 (1) In FA 2004 after section 227 insert—

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**“227ZA The chargeable amount**

- (1) The chargeable amount is the alternative chargeable amount (see section 227B) if—
- (a) the year is—
    - (i) the tax year in which the individual first flexibly accesses pension rights (see section 227G), or
    - (ii) a tax year later than that tax year,
  - (b) the money-purchase input sub-total (see section 227C) exceeds £10,000, and
  - (c) the alternative chargeable amount exceeds the default chargeable amount.
- (2) Otherwise, the chargeable amount is the default chargeable amount.
- (3) The default chargeable amount is the amount (if any) by which—
- (a) the total pension input amount calculated in accordance with section 229(1), exceeds
  - (b) the annual allowance for the year in the case of the individual (see sections 228(1) and 228A).”
- (2) The amendment made by this paragraph has effect for the tax year 2015-16 and subsequent tax years.

*Annual allowance charge where rights have been flexibly accessed*

- 65 (1) In FA 2004 before section 228 insert—

**The alternative chargeable amount**

- “~~227B~~) The alternative chargeable amount is the total of—
- (a) the amount (if any) by which the defined-benefit input sub-total exceeds the alternative annual allowance, and
  - (b) the amount by which the money-purchase input sub-total exceeds £10,000.
- (2) The alternative annual allowance is—

**AA – £10,000**

where AA is the annual allowance for the year in the case of the individual (see sections 228(1) and 228A).

- (3) The defined-benefit input sub-total is the total of—

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- (a) the pension input amounts in respect of each defined benefits arrangement relating to the individual under a registered pension scheme of which the individual is a member (see section 229(2)(c)),
  - (b) the pension input amounts in respect of each hybrid arrangement—
    - (i) relating to the individual under a registered pension scheme of which the individual is a member, and
    - (ii) in respect of which the pension input amount is input amount C mentioned in section 237, and
  - (c) any amounts required to be included by section 227E(3) or 227F(4) or (6) (pension input periods that end in the year but before the day on which rights are first flexibly accessed or that end in the year and contain that day).
- (4) Subsection (3)(b) is subject to section 227D (pension input amounts for certain hybrid arrangements).
- (5) If, in the case of a hybrid arrangement, input amount C mentioned in section 237—
- (a) is a relevant input amount for the purposes of section 237, and
  - (b) is equal to—
    - (i) input amount A or B mentioned in section 237 if that is the only other relevant input amount for the purposes of section 237, or
    - (ii) the greater of input amounts A and B mentioned in section 237 if both are relevant input amounts for the purposes of section 237,
- the pension input amount in respect of the arrangement is, for the purposes of subsection (3)(b) and sections 227C(1)(b) and 227D(1)(c), treated as being input amount A or B or, as the case may be, the greater of input amounts A and B (and, in either case, not input amount C).

### **Meaning of “money-purchase input sub-total”**

- 227(1) The money-purchase input sub-total is the total of—
- (a) the pension input amounts in respect of each money purchase arrangement relating to the individual under a registered pension scheme of which the individual is a member (see section 229(2)(a) and (b)), and
  - (b) the pension input amounts in respect of each hybrid arrangement—
    - (i) relating to the individual under a registered pension scheme of which the individual is a member, and
    - (ii) in respect of which the pension input amount is input amount A or B mentioned in section 237.
- (2) Subsection (1) is to be read with—
- (a) section 227E(2) (pension input periods that end in the tax year but before the day on which rights are first flexibly accessed), and
  - (b) section 227F(2), (3) and (5) (pension input periods that end in the tax year and contain that day).
- (3) Subsection (1)(b) is to be read with—

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- (a) section 227B(5) (hybrid arrangements where input amount C is highest-equal input amount), and
- (b) section 227D (pension input amounts for certain hybrid arrangements).

### **Pension input amounts in respect of certain hybrid arrangements**

227D(1) In this section “relevant hybrid arrangement” means a hybrid arrangement—

- (a) relating to the individual under a registered pension scheme of which the individual is a member,
  - (b) made on or after 14 October 2014 or having become a hybrid arrangement (whether or not for the first time) on or after that day, and
  - (c) in respect of which the pension input amount is input amount C mentioned in section 237.
- (2) As respects each relevant hybrid arrangement in the maximising set of relevant hybrid arrangements—
- (a) the pension input amount in respect of the arrangement is for the purposes of sections 227B(3)(b) and 227C(1)(b) treated as being not input amount C mentioned in section 237 but, instead, the greater of such of input amounts A and B mentioned in section 237 as are, for the purposes of section 237, relevant input amounts in the case of the arrangement, and
  - (b) accordingly, the arrangement—
    - (i) is not to be included among the arrangements mentioned in section 227B(3)(b) whose pension input amounts are totalled under section 227B(3), but
    - (ii) is to be included among the arrangements mentioned in section 227C(1)(b) whose pension input amounts are totalled under section 227C(1).
- (3) For the purposes of subsection (2)—
- (a) the maximising set contains no relevant hybrid arrangements,
  - (b) a particular relevant hybrid arrangement makes up that set, or
  - (c) two or more particular relevant hybrid arrangements make up that set,

if the alternative chargeable amount with the maximising set so made up is not less than it would be with the maximising set made up in any other way.

- (4) In particular, the maximising set may be identified by taking the following steps—

*Step 1* Identify all of the relevant hybrid arrangements.

*Step 2* Identify all of the different combinations of the arrangements identified at Step 1 (including the combination consisting of all of those arrangements, and the combination consisting of none of them, as well as every possible combination of each possible size in between).

*Step 3* For each combination identified at Step 2 calculate what the money-purchase input sub-total would be if each relevant hybrid arrangement in the combination were treated in accordance with the rules in paragraphs (a) and (b) of subsection (2).

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*Step 4* If the result of each calculation at Step 3 is less than or equal to £10,000 the chargeable amount is the default chargeable amount.

*Step 5* If the amount calculated at Step 3 for a combination is greater than £10,000 then calculate in accordance with section 227B what the alternative chargeable amount would be if—

- (a) each relevant hybrid arrangement in the combination were treated in accordance with the rules in paragraphs (a) and (b) of subsection (2), and
- (b) for each relevant hybrid arrangement not in the combination, input amount C mentioned in section 237 were included in the total under section 227B(3).

*Step 6* Identify the highest (or higher) of the amounts calculated at Step 5. The maximising set is made up of each relevant hybrid arrangement in the combination concerned.

- (5) Subsection (1)(c) is to be read with section 227B(5) (hybrid arrangements where input amount C is highest-equal input amount).
- (6) A hybrid arrangement is not a relevant hybrid arrangement if section 227E(2) applies in the case of that arrangement.

#### **Pension input periods ending before rights are first flexibly accessed**

227E) Subsections (2) and (3) apply if, for an arrangement mentioned in section 227C(1), the pension input period ending in the tax year is a period that ends before the individual first flexibly accesses pension rights.

- (2) The pension input amount in respect of the arrangement is for the purposes of section 227C(1) treated as being nil.
- (3) The (actual) pension input amount in respect of the arrangement (see section 229(2)(a), (b) or (d)) is required to be included in the defined-benefit input sub-total calculated under section 227B(3).

#### **Pension input periods in which rights are first flexibly accessed**

227E) Subject to subsection (7), subsections (2) to (6) apply if, for an arrangement mentioned in section 227C(1), the pension input period ending in the tax year contains the day on which the individual first flexibly accesses pension rights (whether or not that day is in the tax year).

- (2) If the arrangement is a cash balance arrangement, the pension input amount in respect of that arrangement is for the purposes of section 227C(1)(a) treated as being—

$$\frac{F}{\text{PIP}} \times \text{APIA}$$

where—

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APIA is the (actual) pension input amount in respect of the arrangement (see section 229(2)(a)),

F is the number of days in the period—

- (a) beginning with the day after that on which the individual first flexibly accesses pension rights, and
- (b) ending at the end of the pension input period mentioned in subsection (1), and

PIP is the number of days in that pension input period.

- (3) If the arrangement is a money purchase arrangement other than a cash balance arrangement, the pension input amount in respect of that arrangement is for the purposes of section 227C(1)(a) treated as being the amount in respect of the arrangement that would be arrived at under section 233 for a pension input period—
  - (a) beginning with the day after that on which the individual first flexibly accesses pension rights, and
  - (b) ending at the end of the pension input period mentioned in subsection (1).
- (4) If the arrangement is a money purchase arrangement, the amount (if any) by which—
  - (a) the (actual) pension input amount in respect of the arrangement (see section 229(2)(a) or (b)), exceeds
  - (b) the amount treated by subsection (2) or (3) as being the pension input amount in respect of the arrangement,
 is required to be included in the defined-benefit input sub-total calculated under section 227B(3).
- (5) If the arrangement is a hybrid arrangement—
  - (a) input amount A mentioned in section 237 is for the purposes of sections 227C(1)(b) and 227D(2) treated as being—

$$\frac{F}{PIP} \times AAIAA$$

where—

AAIAA is the (actual) amount of input amount A for the arrangement,

F is the number of days in the period—

- (a) beginning with the day after that on which the individual first flexibly accesses pension rights, and
- (b) ending at the end of the pension input period mentioned in subsection (1), and

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- PIP is the number of days in that pension input period, and
- (b) input amount B mentioned in section 237 is for the purposes of sections 227C(1)(b) and 227D(2) treated as being the amount for the arrangement that would be arrived at under section 233 for a pension input period—
    - (i) beginning on the day after that on which the individual first flexibly accesses pension rights, and
    - (ii) ending at the end of the pension input period mentioned in subsection (1).
  - (6) If the arrangement is a hybrid arrangement, the amount (if any) by which—
    - (a) the (actual) pension input amount in respect of the arrangement (see section 229(2)(d)), exceeds
    - (b) the amount which, in accordance with subsection (5) and section 227D, is for the purposes of section 227C(1)(b) the pension input amount in respect of the arrangement,is required to be included in the defined-benefit input sub-total calculated under section 227B(3).
  - (7) Subsections (2) to (6) do not apply if section 165(3A) applied in the individual's case to the arrangement, or any other arrangement, at any time before 6 April 2015.

### **When pension rights are first flexibly accessed**

227(1) References in sections 227B to 227F to when the individual first flexibly accesses pension rights are to the time, or the earlier or earliest of the times, given for that by the following subsections.

- (2) If—
  - (a) the individual has a member's flexi-access drawdown fund in respect of an arrangement, and
  - (b) the fund came into being—
    - (i) as a result of sums or assets being designated on or after 6 April 2015 as available for the payment of drawdown pension, or
    - (ii) as a result of the operation of paragraph 8D(2) of Schedule 28,the individual first flexibly accesses pension rights immediately before the first qualifying payment is made from the fund (see subsection (10)).
- (3) If section 165(3A) applied in the individual's case to an arrangement at any time before 6 April 2015, the individual first flexibly accesses pension rights at the start of 6 April 2015.
- (4) If—
  - (a) the individual has a member's drawdown pension fund in respect of an arrangement, and
  - (b) the sums and assets that make up the fund become newly-designated funds by the operation of paragraph 8B of Schedule 28,

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the individual first flexibly accesses pension rights immediately before the first qualifying payment (see subsection (10)) is made from the individual's member's flexi-access drawdown fund in respect of the arrangement (whether that is the payment that triggers the operation of paragraph 8B of Schedule 28 or a subsequent payment).

- (5) If—
- (a) the individual has a member's drawdown pension fund in respect of an arrangement, and
  - (b) the sums and assets that make up the fund become newly-designated funds by the operation of paragraph 8C of Schedule 28,
- the individual first flexibly accesses pension rights immediately before the first qualifying payment is made from the individual's member's flexi-access drawdown fund in respect of the arrangement (see subsection (10)).
- (6) The individual first flexibly accesses pension rights immediately before the payment of the first uncrystallised funds pension lump sum paid to the individual.
- (7) If the individual is entitled to payment of a lifetime annuity under a flexible annuity contract (see subsection (8)), the individual first flexibly accesses pension rights immediately before the first payment of the annuity is made.
- (8) In subsection (7) “flexible annuity contract” means a contract for a lifetime annuity where—
- (a) the annuity is within paragraph 3(1A) of Schedule 28, and
  - (b) the terms of the contract are such that there will or could be decreases in the amount of the annuity other than decreases from time to time allowed by regulations under paragraph 3(1)(d) of Schedule 28 (and any such regulations are to be treated as having effect for this purpose).
- (9) If—
- (a) the individual is entitled to payment of a scheme pension under a money purchase arrangement under a registered pension scheme,
  - (b) the individual became entitled to the scheme pension—
    - (i) on or after 6 April 2015, and
    - (ii) at a time when fewer than 11 other individuals were entitled to the present payment of a scheme pension, or dependants' scheme pension, under the registered pension scheme, and
  - (c) the scheme pension is not payable under an annuity contract treated under section 153(8) or (8A) as having become a registered pension scheme,
- the individual first flexibly accesses pension rights immediately before the first payment of the scheme pension is made.
- (10) In subsections (2), (4) and (5), a reference to a qualifying payment from a fund is a reference to—
- (a) payment of income withdrawal from the fund, or
  - (b) payment of a short-term annuity purchased using sums or assets out of the fund,



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but does not include payment at a time when the whole of the fund represents rights attributable to a disqualifying pension credit.

(11) In subsection (10) “disqualifying pension credit” is to be read in accordance with paragraph 2(3) and (4) of Schedule 29.”

(2) The amendment made by sub-paragraph (1) has effect for the tax year 2015-16 and subsequent tax years.

#### *Further amendments*

66 (1) Omit section 227A of FA 2004 (annual allowance charge: individuals who met flexible drawdown conditions).

(2) In consequence of sub-paragraph (1)—

- (a) in section 227(4) of FA 2004, omit the second sentence, and
- (b) omit paragraph 45 of Schedule 16 to FA 2011.

(3) The amendments made by sub-paragraphs (1) and (2) have effect for the tax year 2015-16 and subsequent tax years.

67 (1) In section 228A of FA 2004 (carry forward of unused annual allowance) after subsection (7) insert—

“(8) If, for a tax year preceding the current tax year, the chargeable amount in the individual's case was the alternative chargeable amount—

- (a) a reference in subsection (3)(a) or (b), (4)(b) or (6)(a) to the annual allowance for that preceding tax year is a reference to the alternative annual allowance for that preceding tax year (see section 227B(2)), and
- (b) a reference in subsection (3)(a) or (b), (4)(b) or (6)(a) to the total pension input amount in the case of the individual for that preceding tax year is a reference to the defined-benefit input sub-total in the case of the individual for that preceding tax year (see section 227B(3) to (5)).

(9) Subsection (3) does not apply in relation to a tax year—

- (a) preceding the current tax year, and
- (b) ending not later than 5 April 2015,

if, at any time in that preceding tax year, section 165(3A) or 167(2A) applied to an arrangement relating to the individual.”

(2) The amendment made by this paragraph has effect where the current tax year is the tax year 2015-16 or a subsequent tax year.

68 In section 237B of FA 2004 (scheme administrator's co-liability for individual's annual allowance charge) after subsection (2) insert—

“(2A) If the chargeable amount for the tax year in the individual's case is the alternative chargeable amount, each of the following is treated as being a reference to the amount that the annual allowance charge for the tax year would be in the individual's case if the chargeable amount were the default chargeable amount—

- (a) the reference in subsection (1)(a) to the amount of the individual's liability to the annual allowance charge for the tax year, and

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- (b) the reference in subsection (3) to the annual allowance charge arising in the case of the individual.”
- 69 (1) In article 25C of the Taxation of Pension Schemes (Transitional Provisions) Order 2006 (S.I. 2006/572) after paragraph (3) insert—
- “(4) If—
- (a) a stand-alone lump sum is paid—
- (i) on or after 6 April 2015,
- (ii) to a member of a pension scheme,
- (iii) under a money purchase arrangement, and
- (iv) in circumstances where article 25B(2) (circumstance A) applies, and
- (b) no previous stand-alone lump sum has been paid—
- (i) on or after that day,
- (ii) to the member,
- (iii) under a money purchase arrangement, and
- (iv) in circumstances where article 25B(2) applies,
- subsection (1) of section 227G of the 2004 Act (individual first flexibly accesses pension rights at earliest time given by the following subsections of that section) has effect as if there were a subsequent subsection of that section stating that the member first flexibly accesses pension rights immediately before the stand-alone lump sum is paid.”
- (2) The amendment made by sub-paragraph (1) is to be treated as having been made by the Treasury under the powers to make orders conferred by section 283(2) of FA 2004.

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