

*These notes refer to the Income Tax (Earnings and Pensions)  
Act 2003 (c.1) which received Royal Assent on 6th March 2003*

# **INCOME TAX (EARNINGS AND PENSIONS) ACT 2003**

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## **EXPLANATORY NOTES**

### **COMMENTARY ON SECTIONS**

#### ***Example 3***

***Ne = £5,000; Da = 183; De = 183; Smg = 0***

#### **Part 9: Pension Income**

##### **Overview**

#### ***Chapter 8: Approved personal pension schemes***

##### **Overview**

2381. This Chapter identifies the payments made by approved personal pension schemes or arrangements that are taxed as pension income.

#### ***Section 595: Annuities***

2382. This section identifies annuities from approved personal pension schemes as pension income. It derives from section 648A of ICTA.

2383. The effect of section 648A(1)(b) of ICTA is preserved by a consequential amendment to section 18(1)(b) of ICTA. This amendment ensures that an annuity taxed in the pension income Part is not also taxed under Schedule D.

2384. Section 648A(2) of ICTA has not been rewritten as it is no longer needed. That provision is a transitional measure introduced when the basis of assessment switched from Schedule D Case III to Schedule E. It allows the Board to authorise the pension payer to continue to treat the annuity as if it were taxed Schedule D Case III. This is to give the payer time to set up a PAYE scheme. This power is no longer needed.

#### ***Section 596: Taxable pension income***

2385. This section deals with the basis of assessment. It identifies the amount of taxable pension income, which feeds into the computation of net taxable pension income in section 567.

2386. The section is new. Tax is charged on the amount of the annuity received in the tax year. See *Change 137* in Annex 1.

#### ***Section 597: Person liable for tax***

2387. This section identifies the person chargeable. It is new.

2388. ICTA taxes this income under Schedule E. It does not identify the person chargeable. This section identifies the person liable for tax on annuities within section 595 as the person receiving or entitled to the income. See *Change 135* in Annex 1.

***Section 598: Income withdrawals***

2389. This section identifies income withdrawals from approved personal pension arrangements as pension income. It derives from section 643(5) of ICTA.

***Section 599: Taxable pension income***

2390. This section deals with the basis of assessment. It identifies the amount of taxable pension income, which feeds into the computation of net taxable pension income in section 567.
2391. The section derives from section 643(5) of ICTA. It makes it clear that tax is charged on the total of the income withdrawals made in the tax year.

***Section 600: Person liable for tax***

2392. This section identifies the person chargeable. It is new.
2393. ICTA taxes this income under Schedule E. It does not identify the person chargeable. This section identifies the person liable for tax on income withdrawals within section 598 as the person receiving or entitled to the income. See *Change 135* in Annex 1.

***Section 601: Unauthorised personal pension payments***

2394. This section identifies unauthorised payments from personal pension schemes or arrangements as pension income. It derives from section 647 of ICTA.
2395. *Subsection (2)* defines “personal pension payment”. It derives from section 647(1) of ICTA.
2396. *Subsection (4)* deals with the case in which the payment is made at a time when the scheme and the individual’s arrangements are approved. It derives from section 647(2)(a) of ICTA. A payment that is not authorised by the scheme rules is taxable.
2397. *Subsection (5)* deals with the case in which the payment is made at a time when the scheme is not approved. It derives from section 647(2)(b) of ICTA. A payment is taxable if it would not have been authorised by the rules of the scheme when the scheme was last approved.
2398. *Subsection (6)* deals with the case in which the payment is made at a time when the arrangements are not approved. It derives from section 647(2)(b) of ICTA. A payment is taxable if it would not have been authorised by the arrangements when the arrangements were last approved.
2399. *Subsection (7)* provides that “payment” includes non-cash payment. It derives from section 647(4) of ICTA.

***Section 602: Taxable pension income***

2400. This section deals with the basis of assessment. It identifies the amount of taxable pension income, which feeds into the computation of net taxable pension income in section 567.
2401. The section derives from section 647(3) of ICTA.

**Section 603: Person liable for tax**

2402. This section identifies the person chargeable. It derives from section 647(3) of ICTA.

**Section 604: Meaning of “personal pension scheme” and related expressions**

2403. This section cross-refers to various definitions and interpretations.

2404. It derives from section 630(1) of ICTA.

2405. The definition of “approved” in section 630(1) of ICTA is:

(a) in relation to a scheme (other than an approved retirement benefits scheme), means approved by the Board under this Chapter; and

(b) in relation to arrangements, means -

(i) made in accordance with a scheme which is for the time being, and was when the arrangements were made, an approved scheme; or

(ii) made in accordance with a scheme which is for the time being an approved converted scheme but which was, when the arrangements were made, an approved retirement benefits scheme

but does not refer to cases in which approval has been withdrawn.

2406. The definition of “income withdrawal” in section 630(1) of ICTA is:

a payment of income, under arrangements made in accordance with a personal pension scheme, otherwise than by way of an annuity.

2407. The definition of “personal pension arrangements” in section 630(1) of ICTA is:

arrangements made by an individual in accordance with a personal pension scheme.

2408. The definition of “personal pension scheme” in section 630(1) of ICTA is:

a scheme whose sole purpose is the provision of annuities, income withdrawals or lump sums under arrangements made by individuals in accordance with the scheme.