

*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

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Example 3

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

Part 9: Pension Income

Overview

Chapter 9: Retirement annuity contracts

Overview

2409. This Chapter identifies annuities paid under a retirement annuity contract as pension income.

Section 605: Annuities

2410. This section applies to annuities paid under a retirement annuity contract. It derives in part from section 18(1)(a)(i) of ICTA and in part is new.

2411. “Retirement annuity contract” is a widely understood term although it is not defined in ICTA. It means a contract that satisfies the conditions for relief set out in Chapter 3 of Part 14 of ICTA. It has not been possible to enter into such a new contract since 1988. But premiums and annuities will be paid under existing contracts for many years to come.

2412. In ICTA there is no specific charge on annuities paid under retirement annuity contracts. The annuities are taxed by the ordinary rules of Schedule D Case III. The pension income Part creates a specific charge on annuities paid under retirement annuity contracts in the pension income Part for two reasons.

2413. First, retirement annuity contracts remain an important source of retirement income for the self-employed.

2414. Second, the specific charge will help to establish a clear boundary between those annuities that qualify for the relief given by section 656 of ICTA and those that do not. This point is particularly relevant for the purchased life annuities dealt with in Chapter 10. It is discussed in paragraphs 2425 and 2426 of the explanatory notes on that Chapter.

Section 606: Meaning of “retirement annuity contract”

2415. This section defines “retirement annuity contract”. It derives from sections 620, 621 and 622(3) of ICTA.
2416. The term “retirement annuity contract” is not defined in ICTA or the Finance Acts. This section introduces a definition based on the conditions under which the premiums qualify for tax relief.
2417. *Paragraph (a)* applies to annuity contracts and trust schemes. It derives from sections 620 and 621 of ICTA. Section 620 applies to annuity contracts that have as their main object the payment of a retirement annuity to an individual. It also applies to trust schemes established to pay retirement annuities to an individual in an occupational group. Section 621 covers contracts to pay annuities to the spouse or dependant of the individual.
2418. *Paragraph (b)* applies to substituted contracts. It derives from section 622(3) of ICTA. Section 622 is concerned with the option to apply the accrued benefits arising from a maturing contract in taking out another contract. It is no longer possible to exercise this option to create a new retirement annuity contract. But annuities are still paid under substituted contracts. So a reference to substituted contracts is needed in the definition of “retirement annuity contract”.

Section 607: Taxable pension income

2419. 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.
2420. It derives from section 64 of ICTA.

Section 608: Person liable for tax

2421. This section identifies the person chargeable. It derives from section 59(1) of ICTA.