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*Changes to legislation: There are currently no known outstanding effects for the Finance (No. 2) Act 2015, SCHEDULE 4. (See end of Document for details)*

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## SCHEDULES

### SCHEDULE 4

Section 23

#### PENSIONS: ANNUAL ALLOWANCE

##### PART 1

###### ALIGNMENT OF PENSION INPUT PERIODS WITH TAX YEARS

- 1 Part 4 of FA 2004 is amended as follows.
- 2 In section 238 (pension input periods)—
- (a) in the title, after “period” insert “ : arrangement commencing before 9 July 2015 ”, and
  - (b) in subsection (1), after “In the case of an arrangement under a registered pension scheme” insert “ where the relevant commencement date is before 9 July 2015, but subject to section 238ZA, ”.
- 3 After section 238 insert—

###### **“238ZA Pension input periods from 9 July 2015 for existing arrangement**

- (1) If the relevant commencement date in the case of an arrangement under a registered pension scheme is before 9 July 2015, section 238(1) and (3) to (6) apply in relation to the arrangement subject to the following.
- (2) If a pension input period for the arrangement—
  - (a) begins with 8 July 2015 or an earlier day, and
  - (b) but for this subsection would end with 9 July 2015 or a later day, it ends with 8 July 2015.
- (3) If a pension input period for the arrangement ends with 8 July 2015 (whether or not because of subsection (2)), the subsequent pension input periods for the arrangement are—
  - (a) the period beginning with 9 July 2015 and ending with 5 April 2016, and
  - (b) the tax year 2016-17 and each subsequent tax year.
- (4) No nominations for the purposes of section 238(3) may be made on or after 9 July 2015.
- (5) “The relevant commencement date” has the meaning given by section 238(2).

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### **238ZB Pension input periods for arrangement commencing after 8 July 2015**

- (1) In the case of an arrangement under a registered pension scheme where the relevant commencement date is 9 July 2015 or later, the following are pension input periods—
    - (a) the period beginning with the relevant commencement date and ending with the first 5 April after the relevant commencement date (or, if the relevant commencement date is itself 5 April, that date), and
    - (b) each tax year beginning after the end of that period.
  - (2) “The relevant commencement date” has the meaning given by section 238(2).
  - (3) Once the individual has become entitled to all the benefits which may be provided to the individual under the arrangement, the last pension input period in the case of the arrangement is that in which that was first so.”
- 4 (1) Omit section 227E (pension input periods ending in, but before the end of, a tax year).
- (2) In consequence—
- (a) in section 227B(3)(c) (amounts required to be included by section 227E(3) etc)—
    - (i) omit “227E(3) or”,
    - (ii) for “but before” substitute “ and contain ”, and
    - (iii) omit “or that end in the year and contain that day”,
  - (b) in section 227C(2) omit paragraph (a) (which refers to section 227E(2)) and the “and” following it,
  - (c) in section 227C(2)(b), for “that day” substitute “ the day on which rights are first flexibly accessed ”, and
  - (d) omit section 227D(6) (cases where section 227E(2) applies).
- (3) The amendments made by this paragraph have effect for the post-alignment tax year (see the section 228C(2) inserted by this Schedule) and subsequent tax years.
- 5 In section 280(2) (index of defined expressions), in the entry for “pension input period”, for “section 238” substitute “ sections 238 to 238ZB ”.

## **PART 2**

ANNUAL ALLOWANCE FOR, AND CARRY-FORWARD FROM, 2015-16

- 6 In Part 4 of FA 2004, after section 228B insert—

### **“228C Annual allowance for, and carry-forward from, 2015-16**

- (1) The provisions relating to the annual allowance charge (whether provisions contained in or made under this or any other Act) have effect subject to the following rules.

*2015-16 split into two tax years for annual allowance purposes*

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*2015-16 split into two tax years for annual allowance purposes*

- (2) For the purposes of those provisions but subject to subsection (3), the tax year 2015-16 is to be treated as consisting of two tax years as follows—
- (a) one beginning with 6 April 2015 and ending with 8 July 2015 (“the pre-alignment tax year”), and
  - (b) one beginning with 9 July 2015 and ending with 5 April 2016 (“the post-alignment tax year”).
- (3) Despite subsection (2)—
- (a) separate annual allowance charges for each of the pre-alignment and post-alignment tax years cannot arise, but a single annual allowance charge for the tax year 2015-16 arises if the individual has a chargeable amount for either or each of the pre-alignment and post-alignment tax years, and
  - (b) that single annual allowance charge is calculated as if—
    - (i) in section 227(4) the reference to the chargeable amount were a reference to the sum of the chargeable amounts for the pre-alignment and post-alignment tax years, and
    - (ii) in section 227(4A) to (4C) each reference to the tax year were to the tax year 2015-16.

*Double allowances allocated to earlier part of 2015-16*

*Double allowances allocated to earlier part of 2015-16*

- (4) For the pre-alignment tax year—
- (a) the amount specified in section 228(1) (annual allowance for tax year) is treated as being £80,000, and
  - (b) in each of sections 227ZA(1)(b) and 227B(1)(b) and (2), the reference to £10,000 is treated as a reference to £20,000.

*Allowances for later part of 2015-16 limited to carried-forward allowances*

*Allowances for later part of 2015-16 limited to carried-forward allowances*

- (5) Where the individual was a member of a registered pension scheme at some time in the pre-alignment tax year then, for the post-alignment tax year—
- (a) the amount specified in section 228(1) is treated as being nil,
  - (b) section 227B(2) (amount of alternative annual allowance) has effect as if “AA” were substituted for “AA – £10,000”,
  - (c) if the chargeable amount in the individual's case for the pre-alignment tax year is the alternative chargeable amount, the reference to £10,000 in each of sections 227ZA(1)(b) and 227B(1)(b) is treated as being a reference to nil, and
  - (d) if the chargeable amount in the individual's case for the pre-alignment tax year is the default chargeable amount, the reference to £10,000 in each of sections 227ZA(1)(b) and 227B(1)(b) is treated as being a reference—

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- (i) to nil where the money-purchase input sub-total in the individual's case for the pre-alignment tax year is £20,000 or more, or
- (ii) to the amount equal to £20,000 minus that sub-total where that sub-total is more than £10,000 but less than £20,000.

*Limit on carry-forward of unused allowances from earlier part of 2015-16*

*Limit on carry-forward of unused allowances from earlier part of 2015-16*

- (6) Where the current tax year for the purposes of section 228A (carry-forward of annual allowance) is the post-alignment tax year—
- (a) if—
    - (i) the chargeable amount in the individual's case for the pre-alignment tax year is the default chargeable amount, and
    - (ii) the excess mentioned in section 228A(5)(a) would otherwise be more than £40,000,
 that excess is treated as being £40,000, and
  - (b) if—
    - (i) the chargeable amount in the individual's case for the pre-alignment tax year is the alternative chargeable amount, and
    - (ii) the excess mentioned in section 228A(5)(a) would otherwise be more than £30,000,
 that excess is treated as being £30,000.

*Further provisions about carry-forward of unused allowances*

*Further provisions about carry-forward of unused allowances*

- (7) Where the current tax year for the purposes of section 228A is the post-alignment tax year or the tax year 2016-17, 2017-18 or 2018-19, section 228A applies in relation to that current tax year as if in section 228A(3)(b)—
- (a) for “either or both of the two” there were substituted “ any one or more of the three ”, and
  - (b) for “(or, where there is an excess for both of those tax years, the excess for both tax years)” there were substituted “ (or, where there is an excess for two or all three of those tax years, the excess for both or all those tax years) ”.
- (8) Where the current tax year for the purposes of section 228A is the tax year 2016-17, 2017-18 or 2018-19—
- (a) if—
    - (i) the chargeable amount in the individual's case for the pre-alignment tax year is the default chargeable amount, and
    - (ii) the excess within section 228A(3)(b) in the case of the pre-alignment tax year would otherwise be more than £40,000,
 that excess is treated as being £40,000 (and accordingly the amount aggregated under section 228A(5) in respect of that excess is so much of the £40,000 as has not been used up),
  - (b) if—

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- (i) the chargeable amount in the individual's case for the pre-alignment tax year is the alternative chargeable amount, and
- (ii) the excess within section 228A(3)(b) in the case of the pre-alignment year would otherwise be more than £30,000, that excess is treated as being £30,000 (and accordingly the amount aggregated under section 228A(5) in respect of that excess is so much of the £30,000 as has not been used up), and
- (c) in calculating for the purposes of section 228A(6) the amount of which of the excesses for different tax years had effect to reduce or eliminate the annual allowance charge for the post-alignment tax year, the amount of the excess for the pre-alignment tax year is to be taken to have done so before that for any other tax year and, subject to that, the amount of the excess for an earlier tax year is to be taken to have done so before that for a later year.

*Supplementary provision*

*Supplementary provision*

- (9) For the pre-alignment tax year, section 229(3) applies as if the reference to the end of the tax year were a reference to the end of the post-alignment tax year.”

### PART 3

#### CALCULATION OF PENSION INPUT AMOUNTS FOR PERIODS ENDING IN 2015-16

- 7 Part 4 of FA 2004 is amended as follows.
- 8 In section 229 (total pension input amount), after subsection (4) insert—
  - “ (5) Subsection (2) is subject to section 237ZA (calculation of pension input amounts for input periods ending in 2015-16).”
- 9 After section 237 insert—

#### “237ZA Pension input amounts for input periods ending in 2015-16

- (1) This section applies where the tax year is the pre-alignment tax year or the post-alignment tax year (see section 228C(2)).

*Modified rules for cash balance, or defined benefits, arrangement*

*Modified rules for cash balance, or defined benefits, arrangement*

- (2) The rules for calculating the pension input amount in respect of a cash balance arrangement, or a defined benefits arrangement, are modified as follows (and the rules for calculating the pension input amount in respect of a hybrid arrangement have effect accordingly).

*Single input amount to be calculated for combined period*

*Single input amount to be calculated for combined period*

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- (3) The pension input amount in respect of the arrangement is the time-apportioned percentage of any increase in the value of the individual's rights under the arrangement during the period (“the combined period”) that consists of the combination of all pension input periods of the arrangement that end—
- (a) on or after 6 April 2015 but on or before 8 July 2015, or
  - (b) on 5 April 2016.
- (4) To calculate the increase (if any) in the value of the individual's rights under the arrangement during the combined period, apply (as the case may be) sections 230 to 232 (except section 230(1)), or sections 234 to 236A (except section 234(1)), as if—
- (a) references to the pension input period were references to the combined period,
  - (b) the combined period were a pension input period of the arrangement,
  - (c) 2.5% were the appropriate percentage specified in section 231(3) or 235(3), and
  - (d) 2.5% were the percentage mentioned in paragraph (c) of the definition of “relevant percentage” given by section 230(5C) or 234(5C),
- but paragraph (d) does not have effect for the purposes of the definition of “CPI percentage” given by section 234(5C).

*Apportioning input amount for combined period to tax years*

*Apportioning input amount for combined period to tax years*

- (5) “The time-apportioned percentage” for the post-alignment tax year is—

$$\frac{272}{D} \times 100$$

and “the time-apportioned percentage” for the pre-alignment tax year is—

$$\frac{D - 272}{D} \times 100$$

where D is the number of days in the combined period.

*Calculation and apportionment rules modified in certain cases*

*Calculation and apportionment rules modified in certain cases*

- (6) Subsections (3) to (5) have effect subject to the following provisions of this section.

*Exceptions in certain cases where individual is deferred member of scheme*

*Exceptions in certain cases where individual is deferred member of scheme*

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- (7) Subsections (3) to (5) do not apply, and subsections (8) and (9) apply instead, if—
- (a) because of section 238ZA(2), a pension input period for the arrangement ends with 8 July 2015,
  - (b) another pension input period for the arrangement ends with a day (“the unchanged last day”) after 5 April 2015 but before 8 July 2015, and
  - (c) section 230(5B) or 234(5B), when applied separately to each of—
    - (i) the pension input period for the arrangement ending with 8 July 2015, and
    - (ii) the pension input period for the arrangement ending with 5 April 2016,gives the result that the pension input amount in respect of the arrangement for each of those periods is nil.
- (8) The pension input amount in respect of the arrangement for the post-alignment tax year is nil.
- (9) The pension input amount in respect of the arrangement for the pre-alignment tax year is the amount which would be the pension input amount in respect of the arrangement for the pre-alignment tax year if—
- (a) the pension input period ending with the unchanged last day were the only pension input period for the arrangement ending in the pre-alignment tax year, and
  - (b) subsections (3) to (5) were ignored.

*Modifications in some other cases where individual is deferred member of scheme*

*Modifications in some other cases where individual is deferred member of scheme*

- (10) Subsections (11) to (13) apply if—
- (a) because of section 238ZA(2), a pension input period for the arrangement ends with 8 July 2015,
  - (b) apart from section 238ZA(2), that pension input period (“the cut-short period”) would have ended with a day (“the original last day”) after 8 July 2015 but before 5 April 2016,
  - (c) at or after the beginning of the cut-short period but not later than the original last day, or in an earlier pension input period for the arrangement, the individual becomes a deferred member of the pension scheme that the arrangement is under, and
  - (d) were the period—
    - (i) beginning with the day after the original last day, and
    - (ii) ending with 5 April 2016,a pension input period for the arrangement, the pension input amount in respect of the arrangement for that period would be nil by virtue of section 230(5B) or 234(5B).

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- (11) Subsections (3) to (5) have effect as if the original last day, and not 5 April 2016, were the last day of the combined period (so that, in particular, D in subsection (5) is the number of days in the combined period as so shortened).
- (12) If the individual becomes a deferred member of the pension scheme in a pension input period for the arrangement earlier than the cut-short period—
  - (a) the time-apportioned percentage for the post-alignment tax year is treated as being nil, and
  - (b) the time-apportioned percentage for the pre-alignment tax year is treated as being 100.
- (13) If the individual becomes a deferred member of the pension scheme at or after the beginning of the cut-short period but not later than the original last day, subsection (5) has effect as if for “ 272 ”, in each place, there were substituted the number of days in the period beginning with 9 July 2015 and ending with the original last day.

*Modification where first input period ends with 5 April 2016*

*Modification where first input period ends with 5 April 2016*

- (14) If the first pension input period for the arrangement ends with 5 April 2016—
  - (a) the time-apportioned percentage for the post-alignment tax year is treated as being 100, and
  - (b) the time-apportioned percentage for the pre-alignment tax year is treated as being nil.

*Modification where last input period ends before 9 July 2015*

*Modification where last input period ends before 9 July 2015*

- (15) If the last pension input period for the arrangement ends after 5 April 2015 but before 9 July 2015—
  - (a) the time-apportioned percentage for the post-alignment tax year is treated as being nil, and
  - (b) the time-apportioned percentage for the pre-alignment tax year is treated as being 100.

*Alternative modifications where individual is deferred member of scheme*

*Alternative modifications where individual is deferred member of scheme*

- (16) Subsections (17) and (18) apply if—
  - (a) subsections (8) and (9) do not apply,
  - (b) subsections (11) to (13) do not apply,
  - (c) subsection (14) does not apply, and
  - (d) section 230(5B) or 234(5B), when applied separately to each of—
    - (i) so much of the combined period as consists of the post-alignment tax year, and
    - (ii) the remainder of the combined period (for this purpose treating that remainder as a single pension input period if not otherwise the case),

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gives the result that the pension input amount in respect of the arrangement for one (but not the other) of those parts of the combined period is nil.

- (17) If the nil result is for so much of the combined period as consists of the post-alignment tax year—
- (a) the time-apportioned percentage for the post-alignment tax year is treated as being nil, and
  - (b) the time-apportioned percentage for the pre-alignment tax year is treated as being 100.
- (18) If the nil result is for so much of the combined period as precedes 9 July 2015—
- (a) the time-apportioned percentage for the pre-alignment tax year is treated as being nil, and
  - (b) the time-apportioned percentage for the post-alignment tax year is treated as being 100.”

## PART 4

### REDUCTION OF ANNUAL ALLOWANCE FOR HIGH-INCOME INDIVIDUALS

- 10 (1) In Part 4 of FA 2004, after section 228 insert—

#### “228ZA Tapered reduction of annual allowance: high-income individual

- (1) If the individual is a high-income individual for the tax year, section 228(1) has effect for the tax year in the individual's case as if the amount (“A”) which it specifies for the tax year were reduced (but not below £10,000) by—

$$\left( T - \text{£}150,000 \right) \times \left( \frac{A - \text{£}10,000}{\text{£}60,000} \right)$$

where T is the individual's adjusted income for the tax year.

- (2) If the amount of the reduction under subsection (1) would otherwise not be a multiple of £1, it is to be rounded down to the nearest amount which is a multiple of £1.
- (3) The individual is a “high-income individual” for the tax year if—
- (a) the individual's adjusted income for the tax year is more than £150,000, and
  - (b) the individual's threshold income for the tax year is more than the amount given by £150,000 minus A.
- (4) The individual's “adjusted income” for the tax year is—
- (a) the individual's net income for the year (see Step 2 of the calculation in section 23 of ITA 2007), plus

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- (b) the amount of any relief under section 193(4) or 194(1) deducted at that Step, plus
  - (c) the amount of any deductions made from employment income of the individual for the year—
    - (i) under section 193(2), or
    - (ii) under Chapter 2 of Part 5 of ITEPA 2003 in accordance with paragraph 51(2) of Schedule 36, plus
  - (d) an amount equal to—
    - (i) the total pension input amount calculated in accordance with section 229(1), less
    - (ii) the amount of any contributions paid by or on behalf of the individual during the year under registered pension schemes of which the individual is a member, less
  - (e) the amount of any lump sum which accrues in the year and in relation to which section 579A of ITEPA 2003 is applied by section 636A(4ZA) of ITEPA 2003.
- (5) The individual's "threshold income" for the tax year is—
- (a) the individual's net income for the year (see Step 2 of the calculation in section 23 of ITA 2007), plus
  - (b) any amount by which what would otherwise be general earnings or specific employment income of the individual for the year has been reduced by relevant salary sacrifice arrangements or relevant flexible remuneration arrangements, less
  - (c) the amount (before any deduction under section 192(1)) of any contribution paid in the year in respect of which the individual is entitled to be given relief under section 192 (relief at source), less
  - (d) the amount of any lump sum which accrues in the year and in relation to which section 579A of ITEPA 2003 is applied by section 636A(4ZA) of ITEPA 2003.
- (6) In subsection (5)—
- "relevant salary sacrifice arrangements" means arrangements—
- (a) under which the individual gives up the right to receive general earnings or specific employment income in return for the making of relevant pension provision, and
  - (b) which are made on or after 9 July 2015 (and whether before or after the start of the employment concerned), and
- "relevant flexible remuneration arrangements" means arrangements—
- (a) under which the individual and an employer of the individual agree that relevant pension provision is to be made rather than the individual receive some description of employment income, and
  - (b) which are made on or after 9 July 2015 (and whether before or after the start of the employment concerned).
- (7) In subsection (6) "relevant pension provision" means the payment of contributions (or additional contributions) to a pension scheme in respect of the individual or otherwise (by an employer of the individual or any other person) to secure an increase in the amount of the benefits to which the

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individual or any person who is a dependant of, or is connected with, the individual is actually or prospectively entitled under a pension scheme.

- (8) In subsection (7) “increase” includes increase from nil.
- (9) Section 993 of ITA 2007 (meaning of “connected” persons) applies for the purposes of subsection (7).

#### **228ZB Anti-avoidance in connection with section 228ZA**

- (1) Subsection (5) applies if there are arrangements in respect of which conditions A to C are met.
  - (2) Condition A is that it is reasonable to assume that the main purpose, or one of the main purposes, of the arrangements is to reduce the amount of the reduction under section 228ZA(1) in the individual's case—
    - (a) for the tax year, or
    - (b) for two or more tax years which include the tax year.
  - (3) Condition B is that the arrangements involve either or both of the following—
    - (a) reducing the individual's adjusted income for the tax year, and
    - (b) reducing the individual's threshold income for the tax year.
  - (4) Condition C is that the arrangements involve the reduction within subsection (3), or any of the reductions within subsection (3), being redressed by an increase in the individual's adjusted income, or threshold income, for a different tax year.
  - (5) The reduction under section 228ZA(1) in the individual's case for the tax year is to be treated as being what it would be apart from the arrangements.
  - (6) In subsection (2) “reduce” includes reduce to nil.
  - (7) The increase mentioned in subsection (4) may be an increase in what would be the individual's adjusted income, or threshold income, for the tax year 2015-16 if section 228ZA—
    - (a) had effect for that year, and
    - (b) did so as if the total pension input amount mentioned in section 228ZA(4)(d)(i) were the sum of the total pension input amounts for the pre-alignment and post-alignment tax years (see section 228C(2)).
  - (8) In this section “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).”
- (2) The amendment made by sub-paragraph (1) has effect for the tax year 2016-17 and subsequent tax years.

### **PART 5**

#### **OTHER AMENDMENTS**

- 11 (1) Part 4 of FA 2004 is amended as follows.

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- (2) In section 227 (annual allowance charge)—
  - (a) in subsection (1) (charge arises if individual has a chargeable amount) after “has a” insert “ non-zero ”, and
  - (b) in subsection (1A) (determination of chargeable amount (if any)) omit “(if any)”.
- (3) In section 227ZA (the chargeable amount) after subsection (3) insert—

“(4) If there is no such excess, the default chargeable amount is zero.”
- (4) The amendments made by this paragraph have effect for the tax year 2015-16 and subsequent tax years.

**Changes to legislation:**

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