*These notes refer to the Finance Act 2014 (c.26) which received Royal Assent on 17 July 2014*

# FINANCE ACT 2014

## EXPLANATORY NOTES

## INTRODUCTION

### *Section 42: Pension Flexibility: Taking Low-Value Pension Rights as Lump Sum*

### Summary

1. This section amends Finance Act 2004 to increase to £30,000 (up from £18,000) the maximum total pension savings that individuals can have before they are no longer permitted to receive lump sums from their registered pension schemes under trivial commutation rules. It also increases the amount that can be paid as a small lump sum irrespective of an individual's total pension savings to £10,000 (up from £2,000). It also amends secondary legislation to increase from two to three the number of small lump sums that an individual can receive from pension schemes that are not occupational or public service pension schemes.

### Details of the Section

2. Subsections (1) and (3) provide for the commutation limit to increase to £30,000. A trivial commutation lump sum is one of the authorised lump sums payable to a member. Paragraph 7(1) of Schedule 29 to Finance Act 2004 (FA 2004) sets out the conditions for a lump sum to be a trivial commutation lump sum and paragraph 7(4) sets the maximum value of an individual's total pension savings at or below which the individual can choose to withdraw those savings as one or more lump sums.

3. Subsections (2) and (4) repeal a provision which, following an increase or decrease in the commutation limit, adjusted the value of pension savings the individual had already crystallised for the purpose of calculating whether the member's total pension savings were more than the commutation limit. This simplifies the revaluation rules.

4. Subsection (5) amends secondary legislation and provides for an increase from £2,000 to £10,000 in the maximum amount of certain lump sums that can be trivial commutation lump sums when paid in connection with a tax-free pension commencement lump sum in certain circumstances. This trivial commutation lump sum can be paid after an individual receives a transitionally-protected pension commencement lump sum, the value of which is higher than the amount defined in paragraph 3 of Schedule 29 to FA 2004 (normally 25% of the value of the member's rights under the scheme). To be a trivial commutation lump sum their remaining pension rights must not be more than the maximum amount.

5. Paragraph (6)(a) amends secondary legislation and raises from £2,000 to £10,000 the maximum amount that may be made as authorised payments for a number of lump sums.

6. Paragraph (6)(b) and subsection (7) amend secondary legislation and raise the maximum amount of certain payments that can be taken as a trivial commutation lump sum from £18,000 to £30,000. The affected payments are payments that would be trivial commutation lump sums but for the continuing payment of an annuity, and which also satisfy the other conditions set out in regulation 10 of the Registered Pension Schemes (Authorised Payments) Regulations 2009 [SI 2009/1171].

7. Paragraph (6)(c) amends secondary legislation and increases a limit from £2,000 to £10,000 in relation to certain small lump sums paid by public service pension schemes or occupational pension schemes. The total value of benefits the individual is entitled to under the scheme paying the lump sum and any related scheme must not be more than that limit.

8. Paragraph (6)(d) amends secondary legislation and increases from two to three the maximum number of small lump sums that an individual can receive, in accordance with regulation 11A of SI 2009/1171, as an authorised payment from registered pension schemes that are not public service pension schemes or occupational pension schemes.

9. Paragraph (6)(e) amends secondary legislation and increases the threshold from £2,000 to £10,000 in relation to payments under one of the provisions amended by subsection (6)(a). The payments affected are some of those made by larger public service or occupational pension schemes in accordance with the conditions set out in regulation 12 of SI 2009/1171. One of the conditions for such payments to be an authorised payment is that there are at least 20 members of the scheme each of whose arrangements have an individual value greater than the threshold.

10. Subsections (8), (9)(a) and (10) provide that the amendments made by the section take effect for commutation periods that start and for payments that are made on or after 27 March 2014. The commutation period is defined in paragraph 7(2) of Schedule 29 to FA 2004 as the period of 12 months starting on the day on which the member is first paid a trivial commutation lump sum.

11. Paragraph (9)(b) provides that the amendment made by subsection (5) is to be treated as made by the Treasury using the powers conferred by section 283(2) FA 2004.

12. Subsection (11) of the section provides that the amendments made by subsection (6) are to be treated as made by HM Revenue & Customs using the powers conferred by section 164 FA 2004.

## Background Note

13. There are a number of payments that registered pension schemes are authorised to make as lump sums. This section increases the maximum amount that may be paid as lump sums that are an individual's total pension savings (trivial commutation lump sums) and small lump sum payments that may made in addition to other authorised payments, which are treated as trivial commutation lump sums.

14. The section is covered by a resolution made under the Provisional Collection of Taxes Act 1968. Under this resolution scheme administrators of registered pension schemes account for income tax under Pay As You Earn procedures before the 2014 Finance Bill received Royal Assent for lump sums to which the section applies where paid on or after 27 March 2014.