

## SCHEDULES

### SCHEDULE 4

Section 34

#### PENSION FLEXIBILITY: ANNUITIES ETC

#### PART 1

##### DEATH BENEFITS FOR NOMINEES, SUCCESSORS AND DEPENDANTS

###### *Introductory*

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

###### *Nominees' annuities and successors' annuities to be authorised payments*

- 2 (1) Section 167(1) (the pension death benefit rules) is amended as follows.
- (2) In pension death benefit rule 3A (payments that may, by way of exception, be made to a nominee) after “other than” insert “a nominees’ annuity in respect of a money purchase arrangement or”.
- (3) In pension death benefit rule 3B (payments that may, by way of exception, be made to a successor) after “other than” insert “a successors’ annuity in respect of a money purchase arrangement or”.

###### *Nominees' annuities and successors' annuities: definitions*

- 3 (1) Part 2 of Schedule 28 (interpretation of the pension death benefit rules) is amended as follows.
- (2) After paragraph 27A insert—

###### *“Nominees’ annuity*

27AA (1) For the purposes of this Part an annuity payable to a nominee is a nominees’ annuity if—

- (a) either—
- (i) it is purchased together with a lifetime annuity payable to the member and the member becomes entitled to that lifetime annuity on or after 6 April 2015, or
- (ii) it is purchased after the member’s death, the member dies on or after 3 December 2014 and the nominee becomes entitled to the annuity on or after 6 April 2015,
- (b) it is payable by an insurance company, and
- (c) it is payable until the nominee’s death or until the earliest of the nominee’s marrying, entering into a civil partnership or dying.

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- (2) For the purposes of sub-paragraph (1)(a) a nominees' annuity is purchased together with a lifetime annuity if the nominees' annuity is related to the lifetime annuity.
  - (3) The Commissioners for Her Majesty's Revenue and Customs may by regulations make provision in relation to cases in which a nominees' annuity payable to a person ("the original nominees' annuity") ceases to be payable and in consequence of that—
    - (a) sums or assets (or both) are transferred from the insurance company to another insurance company and are applied—
      - (i) towards the provision of another nominees' annuity (a "new nominees' annuity") by the other insurance company, or
      - (ii) otherwise, or
    - (b) sums or assets are transferred to the relevant registered pension scheme.
  - (4) The regulations may provide that—
    - (a) in a case where a new nominees' annuity becomes payable, the new nominees' annuity is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original nominees' annuity, and
    - (b) in any other case, the relevant registered pension scheme is to be treated as making an unauthorised payment in respect of the member of an amount equal to the aggregate of the sums, and the market value of the assets, transferred.
  - (5) For the purposes of sub-paragraphs (3) and (4) a registered pension scheme is the relevant registered pension scheme if the original nominees' annuity was acquired using sums or assets held for the purposes of the pension scheme."
- (3) After paragraph 27F insert—

*"Successors' annuity*

- 27FA (1) For the purposes of this Part an annuity payable to a successor is a successors' annuity if—
- (a) the successor becomes entitled to it on or after 6 April 2015,
  - (b) it is payable by an insurance company,
  - (c) it is payable until the successor's death or until the earliest of the successor's marrying, entering into a civil partnership or dying,
  - (d) it is purchased after the death of a dependant, nominee or successor of the member ("the beneficiary"),
  - (e) it is purchased using undrawn funds, and
  - (f) the beneficiary dies on or after 3 December 2014.
- (2) For the purposes of sub-paragraph (1)(e), sums or assets held for the purposes of an arrangement after the beneficiary's death are undrawn funds if—

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- (a) immediately before the beneficiary's death, they were held for the purposes of the arrangement and, as the case may be, represented (alone or with other sums or assets) the beneficiary's—
    - (i) dependant's flexi-access drawdown fund,
    - (ii) dependant's drawdown pension fund,
    - (iii) nominee's flexi-access drawdown fund, or
    - (iv) successor's flexi-access drawdown fund,in respect of the arrangement, or
  - (b) they arise, or (directly or indirectly) derive, from undrawn funds under paragraph (a) or from sums or assets which so arise or derive.
- (3) The Commissioners for Her Majesty's Revenue and Customs may by regulations make provision in relation to cases in which a successors' annuity payable to a person ("the original successors' annuity") ceases to be payable and in consequence of that—
  - (a) sums or assets (or both) are transferred from the insurance company to another insurance company and are applied—
    - (i) towards the provision of another successors' annuity (a "new successors' annuity") by the other insurance company, or
    - (ii) otherwise, or
  - (b) sums or assets are transferred to the relevant registered pension scheme.
- (4) The regulations may provide that—
  - (a) in a case where a new successors' annuity becomes payable, the new successors' annuity is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original successors' annuity, and
  - (b) in any other case, the relevant registered pension scheme is to be treated as making an unauthorised payment in respect of the member of an amount equal to the aggregate of the sums, and the market value of the assets, transferred.
- (5) For the purposes of sub-paragraphs (3) and (4) a registered pension scheme is the relevant registered pension scheme if the original successors' annuity was acquired using sums or assets held for the purposes of the pension scheme."
- (4) Regulations made before 25 December 2015 under the paragraph 27AA or 27FA inserted by this paragraph may, for cases where the transfer concerned takes place on or after 6 April 2015, include provision having effect in relation to times before the regulations are made.

*Dependants' and nominees' annuities: testing against deceased member's lifetime allowance*

- 4      (1) In section 216(1) (benefit crystallisation events and amounts crystallised) the table is amended as follows.

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- (2) In the second column of the entry relating to benefit crystallisation event 4, after “any related dependants’ annuity” insert “and any related nominees’ annuity”.
- (3) After the entry relating to benefit crystallisation event 5C insert—
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| <p>“5D. A person becoming entitled, on or after 6 April 2015 but before the end of the relevant two-year period, to a dependants’ annuity or nominees’ annuity in respect of the individual if—</p> <ul style="list-style-type: none"> <li>(a) the annuity is purchased using (whether or not exclusively) relevant unused uncrystallised funds, and</li> <li>(b) the individual died on or after 3 December 2014</li> </ul> | <p>The aggregate of—</p> <ul style="list-style-type: none"> <li>(a) the amount of such of the sums, and</li> <li>(b) the market value of such of the assets,</li> </ul> <p>applied to purchase the annuity as are relevant unused uncrystallised funds”</p> |
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- 5 (1) Section 217 (persons liable to lifetime allowance charge) is amended as follows.
- (2) In subsection (2A) (cases where dependant or nominee liable) after “event 5C,” insert “or by reason of a person becoming entitled to an annuity as mentioned in the description of benefit crystallisation event 5D,”.
- (3) In subsection (4A) (events 5C and 7 are “relevant post-death” events) after “benefit crystallisation event 5C” insert “, 5D”.
- 6 In section 219(7A) (events 5C and 7 are “relevant post-death” events) after “benefit crystallisation event 5C” insert “, 5D”.
- 7 In Schedule 32 (supplementary provisions about benefit crystallisation events)—
- (a) in paragraph 1 (meaning of “the relevant pension schemes”: in certain cases means schemes of which the individual was a member immediately before death) after “5C” insert “or 5D”,
  - (b) in paragraph 4(1) (further provision about benefit crystallisation event 4) for the words from “if” to “purchased” substitute “if—
    - (a) the lifetime annuity or a related dependants’ annuity or a related nominees’ annuity is, or
    - (b) the lifetime annuity and a related dependants’ annuity are, or
    - (c) the lifetime annuity and a related nominees’ annuity are, or
    - (d) a related dependants’ annuity and a related nominees’ annuity are, or
    - (e) the lifetime annuity and a related dependants’ annuity and a related nominees’ annuity are,

purchased”,
  - (c) in paragraph 14B (event 5C: meaning of “relevant two-year period”), and in the italic heading before that paragraph, for “event 5C” substitute “events 5C and 5D”, and
  - (d) in paragraph 14C(1) (event 5C: meaning of “relevant unused uncrystallised funds”), and in the italic heading before paragraph 14C, for “event 5C” substitute “events 5C and 5D”.

*Minor and consequential amendments*

- 8 In section 172(6A)(b) (“benefit” in section 172 includes rights to payments under certain annuities) after “lifetime annuity or dependants’ annuity” insert “, or nominees’ annuity or successors’ annuity,”.
- 9 (1) Section 172A (surrenders of benefits and rights) is amended as follows.
  - (2) In subsection (1)(aa) (surrender of rights to payments under certain annuities triggers operation of subsection (2)) after “lifetime annuity or dependants’ annuity” insert “, or nominees’ annuity or successors’ annuity,”.
  - (3) In subsection (9A)(b) (references to benefits include references to rights to payments under certain annuities) after “lifetime annuity or dependants’ annuity” insert “, or nominees’ annuity or successors’ annuity,”.
- 10 (1) Section 172B (increase of rights of connected person on death) is amended as follows.
  - (2) In subsection (2)(aa) (relevant member includes person who has rights to payments under certain annuities) after “lifetime annuity or dependants’ annuity” insert “, or nominees’ annuity or successors’ annuity,”.
  - (3) In subsection (7A) (section does not apply to certain increases in rights) after “dependants’ annuity”, in both places, insert “, nominees’ annuity, successors’ annuity”.
  - (4) In subsection (7B)(b) (“benefit” in section 172B includes rights to payments under certain annuities) after “lifetime annuity or dependants’ annuity” insert “, or nominees’ annuity or successors’ annuity,”.
- 11 In section 273B(1) (power of trustees or managers to make certain payments) after paragraph (f) insert—
  - “(fa) paid to purchase a nominees’ annuity,
  - (fb) paid to purchase a successors’ annuity,”.
- 12 In section 280(2) (index of defined expressions) at the appropriate places insert—

“nominees’ annuity	paragraph 27AA of Schedule 28”
“related nominees’ annuity	paragraph 3(4B) of Schedule 29”
“successors’ annuity	paragraph 27FA of Schedule 28”
- 13 (1) Schedule 28 (interpretation of the pension rules and the pension death benefit rules) is amended as follows.
  - (2) In paragraph 3(2B)(a) (power to make regulations about cases where lifetime annuity ceases to be payable by insurance company) after “dependants’ annuity” insert “, nominees’ annuity”.
  - (3) In paragraph 6(1B)(a) (power to make regulations about cases where short-term annuity ceases to be payable by insurance company) after “dependants’ annuity” insert “, nominees’ annuity”.
  - (4) In paragraph 27E(3) (meaning of “unused drawdown funds”)—

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- (a) in paragraph (b), for “derive.” substitute “derive,”, and
- (b) after paragraph (b) (but not as part of it) insert—

“and since the member’s death they have not been designated as available for the payment of dependants’ drawdown pension, not been designated as available for the payment of nominees’ drawdown pension, not been applied towards the provision of a dependants’ annuity, not been applied towards the provision of a nominees’ annuity and not been applied towards the provision of a dependants’ scheme pension.”

- (5) In paragraph 27E(4)(b) and (5) (meaning of “unused uncrystallised funds”) after “not been applied towards the provision of a dependants’ annuity” insert “, not been applied towards the provision of a nominees’ annuity”.
  - (6) In paragraph 27K(3) (meaning of “unused drawdown funds of the beneficiary’s”)—
    - (a) in paragraph (b) for “derive.” substitute “derive,”, and
    - (b) after paragraph (b) (but not as part of it) insert—
 

“and since the beneficiary’s death they have not been designated as available for the payment of successors’ drawdown pension and not been applied towards the provision of a successors’ annuity.”
- 14 (1) Paragraph 3 of Schedule 29 (interpretation of the lump sum rule: meaning of “the applicable amount”) is amended as follows.
- (2) In sub-paragraph (4) (amount applied to purchase certain annuities) after “any related dependants’ annuity” insert “and any related nominees’ annuity”.
  - (3) After sub-paragraph (4A) (when a dependants’ annuity is related to a lifetime annuity) insert—
 

“(4B) For the purposes of this Part a nominees’ annuity is related to a lifetime annuity payable to a member of a registered pension scheme—

    - (a) if they are purchased either in the form of a joint life annuity or separately in circumstances in which the day on which the one is purchased is no earlier than seven days before, and no later than seven days after, the day on which the other is purchased, and
    - (b) the nominees’ annuity will be payable to a nominee of the member.”
  - (4) In sub-paragraph (5) (deductions in calculating applicable amount) after “any related dependants’ annuity”, in both places, insert “or any related nominees’ annuity”.
- 15 In paragraph 15(2)(a) of Schedule 29 (uncrystallised funds lump sum death benefit is sum paid in respect of funds not spent on certain annuities and other pensions) after “lifetime annuity,” insert “a nominees’ annuity,”.

### *Consequential repeal*

- 16 In consequence of paragraph 7(b) of this Schedule, omit paragraph 32 of Schedule 10 to FA 2005.

## PART 2

### INCOME TAX ON BENEFICIARIES' ANNUITIES ETC

#### *Exemption in certain cases for annuities for dependants, nominees and successors*

- 17 (1) In Chapter 17 of Part 9 of ITEPA 2003 (tax on pension income: exemptions) after section 646A insert—

#### **“646B Registered schemes: beneficiaries’ annuities from unused funds**

- (1) The charge to tax under this Part does not apply to a dependants’ annuity, or nominees’ annuity, payable to a person if—
- (a) it is paid in respect of a deceased member of a registered pension scheme who had not reached the age of 75 at the date of the member’s death,
  - (b) the member died on or after 3 December 2014,
  - (c) either—
    - (i) the annuity was purchased using unused drawdown funds or unused uncrystallised funds, or
    - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity that was payable to the person by that other company, and was a dependants’ annuity or nominees’ annuity (as the case may be) purchased as mentioned in sub-paragraph (i) or this sub-paragraph, ceasing to be payable,
  - (d) in a case where the annuity is purchased as mentioned in paragraph (c)(i) and using (whether or not exclusively) unused uncrystallised funds, the person became entitled to it before the end of the period of two years beginning with the earlier of—
    - (i) the day on which the scheme administrator first knew of the member’s death, and
    - (ii) the day on which the scheme administrator could first reasonably have been expected to know of the death,
  - (e) in a case where the annuity is purchased as mentioned in paragraph (c)(ii) and the prior annuity purchased as mentioned in paragraph (c)(i) was purchased using (whether or not exclusively) unused uncrystallised funds, the person became entitled to that prior annuity before the end of the period of two years specified in paragraph (d),
  - (f) no payment of the annuity is made before 6 April 2015, and
  - (g) in a case where the annuity is purchased as mentioned in paragraph (c)(ii), no payment is made before 6 April 2015 of—
    - (i) the prior annuity purchased as mentioned in paragraph (c)(i), and
    - (ii) any other annuity purchased as mentioned in paragraph (c)(ii) that is in the chain of annuities beginning with that prior annuity and ending with the annuity.

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- (2) The charge to tax under this Part does not apply to a successor's annuity payable to a person if—
- (a) it is paid in respect of a deceased member of a registered pension scheme,
  - (b) it is paid on the subsequent death of a dependant, nominee or successor of the member ("the beneficiary"),
  - (c) the beneficiary had not reached the age of 75 at the date of the beneficiary's death,
  - (d) the beneficiary died on or after 3 December 2014,
  - (e) either—
    - (i) the annuity was purchased using undrawn funds, or
    - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity that was payable to the person by that other company, and was a successors' annuity purchased as mentioned in sub-paragraph (i) or this sub-paragraph, ceasing to be payable,
  - (f) no payment of the annuity is made before 6 April 2015, and
  - (g) in a case where the annuity is purchased as mentioned in paragraph (e)(ii), no payment is made before 6 April 2015 of—
    - (i) the prior annuity purchased as mentioned in paragraph (e)(i), and
    - (ii) any other annuity purchased as mentioned in paragraph (e)(ii) that is in the chain of annuities beginning with that prior annuity and ending with the annuity.
- (3) The charge to tax under this Part does not apply to a dependants' annuity or nominees' annuity payable to a person if—
- (a) it is paid in respect of a deceased member of a registered pension scheme who had not reached the age of 75 at the date of the member's death,
  - (b) the member died on or after 3 December 2014,
  - (c) the annuity—
    - (i) was purchased together with a lifetime annuity payable to the member, or
    - (ii) was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity that was payable to the person by that other company, and was a dependants' annuity or nominees' annuity (as the case may be) purchased as mentioned in sub-paragraph (i) or this sub-paragraph, ceasing to be payable,
  - (d) no payment of the annuity is made before 6 April 2015, and
  - (e) in a case where the annuity is purchased as mentioned in paragraph (c)(ii), no payment is made before 6 April 2015 of—
    - (i) the prior annuity purchased as mentioned in paragraph (c)(i), and



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- (ii) any other annuity purchased as mentioned in paragraph (c)
  - (ii) that is in the chain of annuities beginning with that prior annuity and ending with the annuity.
- (4) The charge to tax under this Part does not apply to payments to a person of a lifetime annuity if—
  - (a) the payments are payable to the person under pension rule 2 (see section 165 of FA 2004),
  - (b) either—
    - (i) a member of a registered pension scheme was entitled to be paid the annuity immediately before the member's death, or
    - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity to which there was entitlement as mentioned in sub-paragraph (i), or which was purchased as mentioned in this sub-paragraph, ceasing to be payable,
  - (c) the member had not reached the age of 75 at the date of the member's death,
  - (d) the member died on or after 3 December 2014,
  - (e) any payment of the annuity made before 6 April 2015 is made to the member, and
  - (f) in a case where the annuity is one purchased as mentioned in paragraph (b)(ii), any payment made before 6 April 2015—
    - (i) of the prior annuity to which there is entitlement as mentioned in paragraph (b)(i), or
    - (ii) of any other annuity purchased as mentioned in paragraph (b)(ii) that is in the chain of annuities beginning with that prior annuity and ending with the annuity,

is made to the member.
- (5) Paragraph 27E(3) to (5) of Schedule 28 to FA 2004 (meaning of “unused drawdown funds” and “unused uncrystallised funds”) apply for the purposes of subsection (1).
- (6) Paragraph 27FA(2) of Schedule 28 to FA 2004 (meaning of “undrawn funds”) applies for the purposes of subsection (2)(e).
- (7) For the purposes of subsection (3)(c), a dependants' annuity or nominees' annuity is purchased together with a lifetime annuity if the dependants' annuity or nominees' annuity (as the case may be) is related to the lifetime annuity, and paragraph 3(4A) and (4B) of Schedule 29 to FA 2004 (meaning of “related”) apply for the purposes of this subsection.
- (8) For the purposes of this section, a person becomes entitled to an annuity when the person first acquires an actual (rather than a prospective right) to receive the annuity.

#### **646C Registered schemes: beneficiaries' annuities from drawdown funds**

- (1) The charge to tax under this Part does not apply to a dependants' short-term annuity, nominees' short-term annuity, dependants' annuity or nominees' annuity paid to a person if—

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- (a) it is paid in respect of a deceased member of a registered pension scheme who had not reached the age of 75 at the date of the member's death,
  - (b) the member died on or after 3 December 2014, and
  - (c) the annuity was purchased using sums or assets out of the person's—
    - (i) dependant's drawdown pension fund,
    - (ii) dependant's flexi-access drawdown fund, or
    - (iii) nominee's flexi-access drawdown fund,
 in respect of a money purchase arrangement under a registered pension scheme.
- (2) The charge to tax under this Part does not apply to a successors' short-term annuity, or successors' annuity, paid to a person if—
  - (a) it is paid in respect of a deceased beneficiary of a deceased member of a registered pension scheme where the beneficiary had not reached the age of 75 at the date of the beneficiary's death,
  - (b) the beneficiary died on or after 3 December 2014, and
  - (c) the annuity was purchased using sums or assets out of the person's successor's flexi-access drawdown fund in respect of a money purchase arrangement under a registered pension scheme,
 and here "beneficiary" means dependant, nominee or successor.
- (3) Subsection (1) is subject to subsections (4) to (6).
- (4) Subsection (1) does not exempt payments on or after 6 April 2015 to a person of a dependants' short-term annuity, or dependants' annuity, payable in respect of a deceased member of a registered pension scheme and purchased using sums or assets out of the person's dependant's drawdown pension fund in respect of a money purchase arrangement under a registered pension scheme ("the drawdown fund") if before 6 April 2015—
  - (a) any payment of the annuity was made,
  - (b) any payment was made of any other dependants' short-term annuity, or dependants' annuity, purchased using sums or assets out of—
    - (i) the drawdown fund, or
    - (ii) any fund represented (to any extent) by the drawdown fund,
 or
  - (c) any payment of dependants' income withdrawal was made from—
    - (i) the drawdown fund, or
    - (ii) any fund represented (to any extent) by the drawdown fund.
- (5) Subsection (1) does not exempt payments to a person of a dependants' short-term annuity, or dependants' annuity, payable in respect of a deceased member of a registered pension scheme and purchased using sums or assets out of the person's dependant's flexi-access drawdown fund in respect of a money purchase arrangement under a registered pension scheme ("the new fund") if—
  - (a) any of the sums or assets that make up the new fund—
    - (i) became newly-designated dependant funds under paragraph 22A(2)(b) of Schedule 28 to FA 2004 or as a result of the operation of any of paragraphs 22B to 22D of that Schedule,
    - or

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- (ii) arise, or (directly or indirectly) derive, from any such newly-designated funds or from sums or assets that to any extent so arise or derive,
  - (b) before 6 April 2015—
    - (i) any payment of dependants' income withdrawal in respect of the deceased member was made to the person from, or
    - (ii) any payment in respect of the deceased member was made to the person of a dependants' short-term annuity, or dependants' annuity, purchased using sums or assets out of, the person's dependant's drawdown pension fund in respect of a money purchase arrangement under a registered pension scheme, and
  - (c) any of the sums or assets that made up that fund at the time of the payment make up, or are represented by sums or assets that to any extent make up, the new fund.
- (6) Where relevant unused uncrystallised funds—
- (a) are designated on or after 6 April 2015 as available for the payment of dependants' drawdown pension or nominees' drawdown pension, and
  - (b) as a result of the designation make up (to any extent) a person's dependant's flexi-access drawdown fund or nominee's flexi-access drawdown fund in respect of a money purchase arrangement under a registered pension scheme, but
  - (c) are not so designated before the end of the relevant two-year period, subsection (1) does not exempt payments to the person of a dependants' short-term annuity, nominees' short-term annuity, dependants' annuity or nominees' annuity if any of the sums or assets used to purchase the annuity represent, at the time of the purchase, the whole or any part of those relevant unused uncrystallised funds.
- (7) In this section “the relevant two-year period”, in relation to relevant unused uncrystallised funds held for the purposes of a money purchase arrangement relating to a deceased individual under a registered pension scheme, means the period of two years beginning with the earlier of—
- (a) the day on which the scheme administrator first knew of the individual's death, and
  - (b) the day on which the scheme administrator could first reasonably have been expected to know of it.
- (8) For the purposes of this section, sums or assets held after the death of a member of a registered pension scheme for the purposes of a money purchase arrangement relating to the member under the scheme are “relevant unused uncrystallised funds” if—
- (a) they are unused uncrystallised funds, and
  - (b) the member had not reached the age of 75 at the date of the member's death.
- (9) Paragraph 27E(4) and (5) of Schedule 28 to FA 2004 (meaning of “unused uncrystallised funds”) apply for the purposes of subsection (8)(a).

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#### **646D Non-registered schemes: beneficiaries' annuities from unused funds**

- (1) The charge to tax under this Part does not apply to an annuity payable to a person if—
- (a) it is paid in respect of a deceased member of an overseas pension scheme, or relevant non-UK scheme, who had not reached the age of 75 at the date of the member's death,
  - (b) it would, if the scheme were a registered pension scheme and if "insurance company" in Part 4 of FA 2004 had the meaning given by subsection (8), be a dependants' annuity or nominees' annuity,
  - (c) the member died on or after 3 December 2014,
  - (d) either—
    - (i) the annuity was purchased using sums or assets that would, if the scheme were a registered pension scheme, be unused drawdown funds or unused uncrystallised funds, or
    - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity—
      - (a) that was payable to the person by that other insurance company,
      - (b) that was purchased as mentioned in sub-paragraph (i) or this sub-paragraph, and
      - (c) that would have been a dependants' annuity or nominees' annuity (as the case may be) if the scheme had been a registered pension scheme,
 ceasing to be payable,
  - (e) no payment of the annuity is made before 6 April 2015, and
  - (f) in a case where the annuity is purchased as mentioned in paragraph (d)(ii), no payment is made before 6 April 2015 of—
    - (i) the prior annuity purchased as mentioned in paragraph (d)(i), and
    - (ii) any other annuity purchased as mentioned in paragraph (d)(ii) that is in the chain of annuities beginning with that prior annuity and ending with the annuity.
- (2) The charge to tax under this Part does not apply to an annuity payable to a person if—
- (a) it is paid in respect of a deceased member of an overseas pension scheme or relevant non-UK scheme,
  - (b) it is paid on the subsequent death of an individual who would, if the scheme were a registered pension scheme, be a dependant, nominee or successor of the member ("the beneficiary"),
  - (c) it would, if the scheme were a registered pension scheme and if "insurance company" in Part 4 of FA 2004 had the meaning given by subsection (8), be a successors' annuity,
  - (d) the beneficiary had not reached the age of 75 at the date of the beneficiary's death,
  - (e) the beneficiary died on or after 3 December 2014,
  - (f) either—

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- (i) the annuity was purchased using sums or assets that would, if the scheme were a registered pension scheme, be undrawn funds, or
    - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity—
      - (a) that was payable to the person by that other insurance company,
      - (b) that was purchased as mentioned in sub-paragraph (i) or this sub-paragraph, and
      - (c) that would have been a successors' annuity if the scheme had been a registered pension scheme and if "insurance company" in Part 4 of FA 2004 had the meaning given by subsection (8),ceasing to be payable,
  - (g) no payment of the annuity is made before 6 April 2015, and
  - (h) in a case where the annuity is purchased as mentioned in paragraph (f)(ii), no payment is made before 6 April 2015 of—
    - (i) the prior annuity purchased as mentioned in paragraph (f)(i), and
    - (ii) any other annuity purchased as mentioned in paragraph (f)(ii) that is in the chain of annuities beginning with that prior annuity and ending with the annuity.
- (3) The charge to tax under this Part does not apply to an annuity payable to a person if—
- (a) it is paid in respect of a deceased member of an overseas pension scheme, or relevant non-UK scheme, who had not reached the age of 75 at the date of the member's death,
  - (b) it would, if the scheme were a registered pension scheme and if "insurance company" in Part 4 of FA 2004 had the meaning given by subsection (8), be a dependants' annuity payable to a dependant of the member or a nominees' annuity payable to a nominee of the member,
  - (c) the member died on or after 3 December 2014,
  - (d) the annuity—
    - (i) was purchased together with an annuity payable to the member that would, if the scheme were a registered pension scheme and if "insurance company" in Part 4 of FA 2004 had the meaning given by subsection (8), have been a lifetime annuity, or
    - (ii) was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity—
      - (a) that was payable to the person by that other insurance company, and
      - (b) that would, if the scheme were a registered pension scheme and if "insurance company" in Part 4 of FA 2004 had the meaning given by subsection (8), have been a dependants' annuity or nominees' annuity

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- (as the case may be) purchased as mentioned in sub-paragraph (i) or this sub-paragraph,  
 ceasing to be payable,
- (e) no payment of the annuity is made before 6 April 2015, and
  - (f) in a case where the annuity is purchased as mentioned in paragraph (d)(ii), no payment is made before 6 April 2015 of—
    - (i) the prior annuity purchased as mentioned in paragraph (d)(i), and
    - (ii) any other annuity purchased as mentioned in paragraph (d)(ii) that is in the chain of annuities beginning with that prior annuity and ending with the annuity.
- (4) The charge to tax under this Part does not apply to payments to a person of an annuity if—
- (a) either—
    - (i) a member of an overseas pension scheme, or relevant non-UK scheme, was entitled to be paid the annuity immediately before the member's death, or
    - (ii) the annuity was purchased using sums or assets transferred to an insurance company by another insurance company in consequence of an annuity to which there was entitlement as mentioned in sub-paragraph (i), or which was purchased as mentioned in this sub-paragraph, ceasing to be payable,
  - (b) the payments would, if the scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by subsection (8), be—
    - (i) payments of a lifetime annuity, and
    - (ii) payable to the person under pension rule 2 (see section 165 of FA 2004),
  - (c) the member had not reached the age of 75 at the date of the member's death,
  - (d) the member died on or after 3 December 2014,
  - (e) any payment of the annuity made before 6 April 2015 is made to the member, and
  - (f) in a case where the annuity is one purchased as mentioned in paragraph (a)(ii), any payment made before 6 April 2015—
    - (i) of the prior annuity to which there is entitlement as mentioned in paragraph (a)(i), or
    - (ii) of any other annuity purchased as mentioned in paragraph (a)(ii) that is in the chain of annuities beginning with that prior annuity and ending with the annuity,
 is made to the member.
- (5) Paragraph 27E(3) to (5) of Schedule 28 to FA 2004 (meaning of “unused drawdown funds” and “unused uncrystallised funds”) apply for the purposes of subsection (1).
- (6) Paragraph 27FA(2) of Schedule 28 to FA 2004 (meaning of “undrawn funds”) applies for the purposes of subsection (2)(f).

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- (7) For the purposes of subsection (3)(d), an annuity is purchased together with another if they are purchased—
- (a) in the form of a joint life annuity, or
  - (b) separately in circumstances in which the day on which the one is purchased is no earlier than seven days before, and no later than seven days after, the day on which the other is purchased.
- (8) In this section “insurance company” means—
- (a) an insurance company as defined by section 275 of FA 2004, or
  - (b) a person—
    - (i) whose normal business includes the activity of providing annuities,
    - (ii) who carries on that activity in a country or territory outside the United Kingdom, and
    - (iii) whose carrying on of that activity in any particular country or territory outside the United Kingdom—
      - (a) is regulated in that country or territory, or
      - (b) is lawful under the law of that country or territory because it is regulated in another country or territory,
- and for this purpose an activity is regulated in a country or territory if it is regulated by the government of that country or territory or by a body established under the law of that country or territory for the purpose of regulating the carrying-on of the activity.

#### **646E Non-registered schemes: beneficiaries’ annuities from drawdown funds**

- (1) The charge to tax under this Part does not apply to an annuity paid to a person if—
- (a) it is paid in respect of a deceased member of an overseas pension scheme, or a relevant non-UK scheme, who had not reached the age of 75 at the date of the member’s death,
  - (b) the person would, if that scheme were a registered pension scheme, be a dependant or nominee of the member,
  - (c) the annuity was purchased using sums or assets held for the purposes of a money purchase arrangement under an overseas pension scheme or relevant non-UK scheme, and those sums or assets would if that scheme were a registered pension scheme form the whole or part of the person’s—
    - (i) dependant’s drawdown pension fund,
    - (ii) dependant’s flexi-access drawdown fund, or
    - (iii) nominee’s flexi-access drawdown fund,in respect of the arrangement,
  - (d) the annuity would, if the scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by section 646D(8), be a dependants’ short-term annuity or dependants’ annuity or (as the case may be) a nominees’ short-term annuity or nominees’ annuity, and
  - (e) the member died on or after 3 December 2014.

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- (2) The charge to tax under this Part does not apply to an annuity payable to a person if—
- (a) it is paid in respect of a deceased individual (“the beneficiary”) who had not reached the age of 75 at the date of the beneficiary’s death,
  - (b) the beneficiary would have been a dependant, nominee or successor of a deceased member of an overseas pension scheme, or relevant non-UK scheme, if that scheme had been a registered pension scheme,
  - (c) the person would, if that scheme were a registered pension scheme, be a successor of the member,
  - (d) the annuity was purchased using sums or assets out of a fund held for the purposes of a money purchase arrangement under an overseas pension scheme or relevant non-UK scheme and would, if that scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by section 646D(8), be a successors’ short-term annuity, or successors’ annuity, purchased using sums or assets out of the person’s successor’s flexi-access drawdown fund in respect of the arrangement, and
  - (e) the beneficiary died on or after 3 December 2014.
- (3) Subsection (1) is subject to subsections (4) and (5).
- (4) Subsection (1) does not exempt payments on or after 6 April 2015 to a person of an annuity payable in respect of a deceased member of an overseas pension scheme, or relevant non-UK scheme, if—
- (a) the annuity is purchased using sums or assets held for the purposes of a money purchase arrangement under an overseas pension scheme or relevant non-UK scheme,
  - (b) the annuity would, if that scheme were a registered pension scheme and if “insurance company” in Part 4 of FA 2004 had the meaning given by section 646D(8), be a dependants’ short-term annuity or dependants’ annuity,
  - (c) the annuity was purchased using sums or assets out of a fund that would, if that scheme were a registered pension scheme, be the person’s dependant’s drawdown pension fund in respect of the arrangement (“the drawdown fund”), and
  - (d) before 6 April 2015—
    - (i) any payment of the annuity was made,
    - (ii) any payment was made to the person of any other annuity purchased using sums or assets out of the drawdown fund or out of any fund represented (to any extent) by the drawdown fund, or
    - (iii) any payment was made to the person out of the drawdown fund, or out of any fund represented (to any extent) by the drawdown fund, of any pension that would be dependants’ income withdrawal if the fund concerned were held for the purposes of a registered pension scheme.



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- (5) Subsection (1) does not exempt payments to a person of an annuity payable in respect of a deceased member of an overseas pension scheme, or relevant non-UK scheme, if—
- (a) the annuity was purchased using sums or assets held for the purposes of a money purchase arrangement under an overseas pension scheme or relevant non-UK scheme and would, if that scheme were a registered pension scheme and “insurance company” in Part 4 of FA 2004 had the meaning given by section 646D(8), be a dependants’ short-term annuity or dependants’ annuity,
  - (b) the annuity was purchased using sums or assets out of a fund (“the new fund”) that would, if that scheme were a registered pension scheme, be the person’s dependant’s flexi-access drawdown fund in respect of the arrangement,
  - (c) before 6 April 2015—
    - (i) any payment of pension in respect of the deceased member was made to the person from a fund held for the purposes of a money purchase arrangement under an overseas pension scheme, or relevant non-UK scheme, that would be a payment of dependants’ income withdrawal from the person’s dependant’s drawdown pension fund in respect of the arrangement if the scheme were a registered pension scheme, or
    - (ii) any payment in respect of the deceased member was made to the person of an annuity purchased using sums or assets out of a fund held for the purposes of a money purchase arrangement under an overseas pension scheme, or relevant non-UK scheme, that would be a payment of a dependants’ short-term annuity, or dependants’ annuity, purchased using sums or assets out of the person’s dependant’s drawdown pension fund in respect of the arrangement if the scheme were a registered pension scheme, and
  - (d) any of the sums or assets that made up the fund mentioned in paragraph (c)(i) or (ii) make up, or are represented by sums or assets that to any extent make up, the new fund.

#### **646F Interpretation of sections 646B to 646E**

In sections 646B to 646E, an expression listed in the first column of the table has the meaning given by the provision of FA 2004 listed against that expression in the second column of the table.

<i>Expression</i>	<i>Provision of FA 2004</i>
dependant	Schedule 28, paragraph 15
dependants’ annuity	Schedule 28, paragraph 17
dependant’s drawdown pension fund	Schedule 28, paragraph 22
dependant’s flexi-access drawdown fund	Schedule 28, paragraph 22A
dependants’ income withdrawal	Schedule 28, paragraph 21

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<i>Expression</i>	<i>Provision of FA 2004</i>
dependants' short-term annuity	Schedule 28, paragraph 20
insurance company (in sections 646B and 646C)	section 275
lifetime annuity	Schedule 28, paragraph 3
money purchase arrangement	section 152
nominee	Schedule 28, paragraph 27A
nominees' annuity	Schedule 28, paragraph 27AA
nominee's flexi-access drawdown fund	Schedule 28, paragraph 27E
nominees' short-term annuity	Schedule 28, paragraph 27C
overseas pension scheme	section 150(1) and (7)
relevant non-UK scheme	Schedule 34, paragraph 1(5)
successor	Schedule 28, paragraph 27F
successors' annuity	Schedule 28, paragraph 27FA
successor's flexi-access drawdown fund	Schedule 28, paragraph 27K
successors' short-term annuity	Schedule 28, paragraph 27H".

- (2) The amendment made by this paragraph has effect in relation to pension paid on or after 6 April 2015.

*Exemption from tax under Part 9 of ITEPA 2003 not to give rise to tax under other provisions*

- 18 In section 393B(2)(a) of ITEPA 2003 (tax on benefits under employer-financed retirement benefit schemes: "relevant benefits" do not include benefits charged to tax under Part 9) after "charged to tax under Part 9 (pension income)" insert ", or that would be charged to tax under that Part but for section 573(2A) or (2B), 646D or 646E".

*Annuity for dependant purchased before 6 April 2006 jointly with annuity for member*

- 19 In Schedule 36 to FA 2004 (transitional provision etc in relation to pre-6 April 2006 pensions) after paragraph 45 insert—

*"Taxation of certain annuities for dependants purchased pre-commencement*

- 45A (1) The charge to tax under Part 9 of ITEPA 2003 (taxation of pension income) does not apply to an annuity payable to a person ("the dependant") if—
- (a) the annuity is payable on the death of a member of a pension scheme,
  - (b) the annuity is paid in respect of the deceased member,
  - (c) the member had not reached the age of 75 at the date of the member's death,
  - (d) the member died on or after 3 December 2014,

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- (e) no payment of the annuity is made before 6 April 2015,
  - (f) the annuity has fulfilled the transitional conditions at all times on or after 6 April 2006,
  - (g) the annuity was purchased together with an annuity payable to the member, and
  - (h) that annuity payable to the member fulfilled the transitional conditions at all times in the period beginning with 6 April 2006 and ending with the member's death.
- (2) For the purposes of sub-paragraph (1)(g), an annuity is purchased together with another if they are purchased—
- (a) in the form of a joint life annuity, or
  - (b) separately in circumstances in which the day on which the one is purchased is no earlier than seven days before, and no later than seven days after, the day on which the other is purchased.
- (3) In sub-paragraph (1) “the transitional conditions” means the conditions specified in the subsection (3A) set out in article 2(3) of the Taxation of Pension Schemes (Transitional Provisions) Order 2006 ([S.I. 2006/572](#)).”

*Minor and consequential amendments*

- 20 In section 573 of ITEPA 2003 (foreign pensions to which other provisions of Part 9 of ITEPA 2003 do not apply) after subsection (2D) insert—
- “(2E) Chapter 17 of this Part provides exemptions for certain annuities (see sections 646D and 646E: certain beneficiaries’ annuities purchased out of unused or drawdown funds).
- (2F) See also paragraph 45A of Schedule 36 to FA 2004 (exemption in certain cases for payments on or after 6 April 2015 to beneficiaries under joint-life or similar annuities purchased before 6 April 2006).”
- 21 In Chapter 10 of Part 9 of ITEPA 2003 (other employment-related annuities) after section 611 insert—
- “611A Exemptions from sections 609 to 611**
- (1) Chapter 17 of this Part provides exemptions for certain annuities (see sections 646B to 646E: certain beneficiaries’ annuities purchased out of unused or drawdown funds).
- (2) See also paragraph 45A of Schedule 36 to FA 2004 (exemption in certain cases for payments on or after 6 April 2015 to beneficiaries under joint-life or similar annuities purchased before 6 April 2006).”
- 22 In section 579A of ITEPA 2003 (section applies to pensions under registered pension schemes, with exceptions) after subsection (2) insert—
- “(3) Chapter 17 of this Part provides exemptions for certain annuities (see sections 646B and 646C: certain beneficiaries’ annuities purchased out of unused or drawdown funds).”
- 23 (1) For section 579CZA(5)(b) of ITEPA 2003 (tax exemption for dependants’ income withdrawal overridden where any paid before 6 April 2015) substitute—

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“(b) before 6 April 2015—

- (i) any payment of dependants’ income withdrawal in respect of the deceased member was made to the person from, or
  - (ii) any payment in respect of the deceased member was made to the person of a dependants’ short-term annuity purchased using sums or assets out of,
- the person’s dependant’s drawdown pension fund in respect of a money purchase arrangement under a registered pension scheme, and”.

- (2) The amendment made by this paragraph has effect in relation to pension paid on or after 6 April 2015.