

EXPLANATORY MEMORANDUM TO

THE REGISTERED PENSION SCHEMES (STANDARD LIFETIME AND ANNUAL ALLOWANCES) ORDER 2007

2007 No. 494

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. Description

This Order sets the standard lifetime allowance and annual allowance for the purposes of the tax relief in relation to pensions.

3. Matters of special interest to the Select Committee on Statutory Instruments

This Order represents the first exercise of the powers in sections 218(3) and 228(2) of the Finance Act 2004.

4. Legislative Background

The powers to make these provisions are contained in sections 218(3) and 228(2) of the Finance Act 2004. The standard lifetime and annual allowance rates for the tax year 2006-07 were set by sections 218(2) and 228(1) of the Finance Act 2004. Sections 218(3) and 228(2) provide that the standard lifetime allowance and annual allowance for each subsequent tax year would be set by Treasury Order and that the amount would not be less than the allowance for the immediately preceding year.

5. Extent

These instruments apply throughout the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to the negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy Background

7.1 The Government wants to encourage today's workers, who will be tomorrow's pensioners, to save for their retirement and offers tax incentives to encourage people to save in a pension. Following extensive consultation, pensions tax

simplification was legislated for in Part 4 of the Finance Act 2004. The objectives are to increase individual choice and flexibility and cut industry costs by tackling the complexity and fragmentation caused by the previous rules.

7.2 From 6th April 2006, a new unified pensions tax regime replaced the numerous existing regimes. The new regime contains two key controls on the maximum tax relief available on pension savings: a lifetime allowance and an annual allowance. These replace the plethora of controls previously in existence.

7.3 Every individual has a set level of benefits that they can draw from all their registered pension schemes in their lifetime, without triggering certain tax charges. These measures are the lifetime allowance and annual allowance. This instrument fixes the standard lifetime allowance and annual allowance rates for the tax years 2007-08 to 2010-11.

8. Impact

The impact of this Order is contained within the Simplifying the taxation of pensions Regulatory Impact Assessment and Appendix which can be found at www.hmrc.gov.uk/ria/simplifying-pensions.pdf and www.hmrc.gov.uk/ria/simplifying-pensions-appendix.pdf.

9. Contact

Paul Cottis at HM Revenue & Customs (tel: 0115 974 1691 or e-mail: paulcottis@hmrc.gsi.gov.uk) can answer any queries regarding the instrument.