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## EXPLANATORY NOTE

*(This note is not part of the Order)*

This Order amends the Taxation of Pension Schemes (Transitional Provisions) Order 2006 in order to make further transitional provision in relation to trivial commutation lump sums.

Article 3 inserts new articles 23A to 23D in the 2006 Order.

New article 23B modifies section 166 of the Finance Act 2004 so as to allow an additional category of lump sum to qualify under the “lump sum rule” and thus avoid the unauthorised payment charge which would otherwise arise. The new lump sums are those created by new article 23C.

New article 23C modifies Schedule 29 to the Finance Act 2004 by inserting a new paragraph 7A. The effect is to allow pension schemes to convert what are small pensions into lump sums without creating a charge to income tax for the scheme member. The maximum lump sum is £2,000. There are several conditions that must be satisfied, but this nevertheless represents an easing of the existing conditions relating to trivial commutations.

New article 23D makes consequential amendments to the existing transitional provisions in Schedule 36 to the Finance Act 2004.

A full and final Impact Assessment has not been produced for this instrument as a negligible impact on the private or voluntary sectors is foreseen.

An Impact Assessment was produced to accompany the Budget announcement, made on 12th March 2008, of the Government’s intention to make these changes. This is available on the HMRC website at <http://www.hmrc.gov.uk/budget2008/widen-scope-authpyt.pdf>.