

HMRC letter to ACA dated 16 July 2013:

Dear Stakeholder,

Annual Allowance and DB scheme transfers - interim announcement from HMRC

As you may be aware, work is ongoing to address a number of unintended outcomes from the changes to the Annual Allowance Charge tax rules introduced in Finance Act 2011. HMRC intends to issue a revised draft Annual Allowance Charge Order for comment as soon as possible – having considered the range of responses to consultation into the previous draft published on 16 November 2012.

Work to finalise the revised draft continues but it is understood that current uncertainty in the sector about the tax treatment of ‘underfunded’ bulk transfers for Annual Allowance purposes is causing difficulty, particularly for those registered pension schemes seeking to merge where member benefits will be unchanged after the transfer.

Ahead of the publication of the revised draft Order, it may be helpful to confirm that it is the Government’s intention that pension input amounts should not arise in situations where all of the following criteria are met;

- There is a ‘bulk’ or ‘block’ transfer of a group of members from one registered pension schemes to another as a result of an employer rearranging its pension schemes or as part of a business transaction
- The member's retirement benefit in the receiving scheme represented by the transfer is the same in principle as if it had remained in the original scheme and the rearrangement of pension schemes or business transaction had not taken place i.e. a transfer on a mirror image basis. This requirement may be expressed using a value test to ensure that some variations in benefit format can be accommodated, however this is still being finalised and further detail will be provided by the draft Order on publication.
- The pension input amount would at present arise simply because the transfer is ‘underfunded’ (that is, the sums or assets transferred to the receiving scheme are not sufficient to support the level of benefits promised by the receiving scheme).

The draft Order to be published will include revised provisions to address this ‘underfunded bulk transfer’ issue and it is intended that the provisions will have effect for pension input amount calculations for 2011/12 and subsequent tax years.

The Government will consult further on the revised draft Order, including these provisions, and the final draft will require parliamentary scrutiny. It is therefore possible that further changes may be required.

To help this message reach those affected it would be helpful if you would circulate to your members. Queries should be routed to pensions.policy@hmrc.gsi.gov.uk

Kind regards

Jon

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