EXPLANATORY MEMORANDUM TO

THE REGISTERED PENSION SCHEMES (PROVISION OF INFORMATION) (AMENDMENT) REGULATIONS 2014

2014 No. 1843

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

2. Purpose of the instrument

2.1 This instrument amends the Registered Pension Schemes (Provision of Information) Regulations 2006 (S.I. 2006/567) ("the Regulations"), as a consequence of the introduction of individual protection 2014 ("IP14") in the Finance Act 2014 ("FA 2014"). This instrument prescribes the information requirements for scheme administrators and individuals where an individual wants to rely on IP14 to reduce or eliminate a lifetime allowance ("LTA") charge.

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

3.1 None.

4. Legislative Context

4.1 Part 4 of Finance Act 2004 ("the Act") made provision for the taxation of registered pension schemes. The Act introduced an overall limit on the amount of UK tax relieved pension savings that an individual can make, this is known as the LTA (sections 218 to 226 of the Act). Any pension savings that exceed the LTA are subject to a charge to income tax known as the LTA charge (section 214 of the Act).

4.2 Section 48 of FA 2013 amends section 218 of the Act and reduced the lifetime allowance from £1.5 million to £1.25 million for the 2014-15 tax year onwards. Part 1 of Schedule 6 to FA 2014 introduced a new transitional protection regime, IP14, for those who think they may be affected by the reduction in the LTA and who have total UK tax relieved pension savings of greater than £1.25m on 5 April 2014. IP14 will give individuals a personalised LTA based on the value of their pension savings on 5 April 2014, subject to an overall limit of £1.5 million. The Registered Pension Schemes and Relieved Non-UK Pension Schemes (Lifetime Allowance Transitional Protection) (Individual Protection 2014 Notification) Regulations 2014 (S.I. 2014/1842) set out how and when individuals may apply for IP14 and the conditions for maintaining this transitional protection.

4.3 Section 251 of the Act provides that HMRC may make provision in Regulations requiring persons of a prescribed description to provide information to HMRC or other persons of a prescribed description, in relation to matters relating to registered pension schemes. This instrument is made under section 251 and imposes the information requirements for individuals and pension scheme administrators where an individual has IP14 and wants to rely on their IP14 certificate setting out their personalised LTA when they crystallise some or all of their pension savings. The information requirements are similar to those that apply where an individual relies on earlier forms of LTA transitional protection.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

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

7. Policy background

- What is being done and why

7.1 The Government provides tax relief on pensions savings to encourage individuals to take responsibility for retirement planning and to recognise that pensions are less flexible than other forms of saving. However, the cost of tax relief net of income tax on pensions has almost doubled over the last decade to an annual cost of around £35 billion by 2011-12. Reform to pensions tax relief is an integral part of the Government's deficit reduction package and as part of these reforms the Government has introduced restrictions to the amount of tax-free pension savings that can be made to ensure that pensions tax relief remains fair, affordable and sustainable.

7.2 The level of the standard LTA will reduce from its current level of £1.5 million to £1.25 million from the 2014-15 tax year onwards. In recognition that reducing the LTA created a potential issue for individuals who may have already built up pension savings on the expectation that the LTA would remain at its previous level of £1.5 million, the Government introduced a transitional protection regime 'fixed protection 2014' (FP14) to support individuals who had already made pension savings decisions based on the current level of the LTA. Individuals with FP14 will have a personalised LTA of £1.5 million but in return they had to stop contributing to money purchase schemes and cease to accrue new benefits in defined benefit or cash balance schemes.

7.3 FP14 potentially created a 'cliff-edge' for pension savers (and members of defined benefit schemes in particular), as in effect it required individuals to opt out of active membership of their scheme and become a deferred member. IP14 is therefore of particular benefit for those who wanted

to continue saving in their pension scheme after 6 April 2014, albeit that they will have a lower LTA than with FP14 and will be subject to LTA charges on any additional savings

7.4 In order to monitor compliance with IP14, the instrument being made sets out the information that scheme administrators and individuals must provide in connection with IP14.

- Consolidation

7.5 There are no plans to consolidate the instrument that is being amended.

8. Consultation outcome

8.1 This instrument was subject to consultation as part of the formal consultation 'Pensions Tax Relief – Individual Protection from the Lifetime Allowance Charge' which was published on 10 June 2013. A summary of responses to this consultation was published on 10 December 2013.

8.2 Minor drafting changes have been made to this instrument following the consultation.

9. Guidance

9.1 The guidance will be updated at the next available opportunity after the Regulations come into force to reflect the changes.

10. Impact

10.1 This instrument will impact on business, charities or voluntary bodies where they are a registered pension scheme, as it introduces new reporting requirements for pension scheme administrators in specified circumstances. Further information about this can be found in the Tax Information and Impact Note.

10.2 The impact on the public sector is the same as for other businesses.

10.3 A Tax Information and Impact Note was published on 10 June 2013 and updated on 10 December 2013 and is available on the HMRC website at http://www.hmrc.gov.uk/thelibrary/tiins.htm. It remains an accurate summary of the impacts that apply to this instrument.

11. Regulating small business

11.1 This instrument applies to small business.

11.2 This instrument applies in the same way to small businesses as it does to any other business. Because of the nature of information to be provided, it would not be appropriate to have different requirements for small businesses.

12. Monitoring & review

12.1 The policy will be monitored through information collected from HMRC databases, tax returns, receipts and other statistics.

13. Contact

Samantha Skill at HMRC Tel: 03000 564149 or email: pensions.policy@hmrc.gsi.gov.uk , can answer any queries regarding the instrument.