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## PENSION PROTECTION FUND

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### Who is likely to be affected?

1. Members of defined benefit occupational pension schemes and their sponsoring employers.

### General description of the measure

2. The Government legislated in the Pensions Act 2004 to create the Pension Protection Fund (PPF), which will be able to assume responsibility for defined benefit occupational pension schemes (and other pension schemes with defined benefit elements) whose sponsoring employers have become insolvent, leaving insufficient assets in the scheme. The PPF will pay compensation to the members of these schemes in lieu of the benefits that would have been payable by the schemes. The PPF will not be a pension scheme, but will be given tax treatment equivalent to that of a tax-privileged pension scheme.

### Operative date

3. The tax treatment will apply from 6 April 2005.

### Current law and proposed revisions

4. Pension schemes that are “approved” by the Inland Revenue have various tax privileges. The schemes are exempt from tax on their investment income and capital gains. Tax relief is allowed on contributions to the schemes, whether from members or employers. Lump sums paid to members or their dependants are (within certain limits) exempt from tax.

5. Under the new simplified tax regime for pension schemes, which takes effect from 6 April 2006, these tax privileges will be provided to “registered” pension schemes. Existing approved schemes will become registered schemes.

6. The PPF will be a body corporate, which means that it will ordinarily be liable to pay corporation tax on its income and gains. It will be funded by statutory levies on eligible schemes, for which tax relief will not necessarily be given. As the PPF will not be a pension scheme, it would not be able to pay tax-free lump sums.

7. Legislation will put the PPF on the same tax footing as tax-privileged pension schemes. Up to 5 April 2006, the PPF will benefit from the tax treatment of an approved occupational pension scheme. After that date, the PPF will benefit from the tax treatment of a registered pension scheme. Tax relief will be allowed for payment of the statutory levies to the PPF, for example where a sponsoring employer provides a scheme with funding for the levy payments.

#### **Further advice**

8. If you have any questions about this change, please contact Mark Bravery on 020 7147 2860. Information about the impact of the PPF on business can be found in the Regulatory Impact Assessment for the Pensions Bill 2004, published at [www.dwp.gov.uk/resourcecentre/ria](http://www.dwp.gov.uk/resourcecentre/ria) Information about Budget measures is available on the Inland Revenue website at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)