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## TAXATION OF PAYMENTS FROM THE FINANCIAL ASSISTANCE SCHEME

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### Who is likely to be affected?

1. Members of defined benefit occupational pension schemes (often referred to as final salary schemes), where the pension scheme is no longer able to meet all its pension obligations and qualifies for assistance from the Financial Assistance Scheme (FAS).

### General description of the measure

2. The FAS is a Government-funded scheme. It provides financial help to members of defined benefit occupational pension schemes who have lost significant amounts of their accrued rights because their scheme was wound up when it had insufficient assets. It only applies to schemes wound up between 1 January 1997 and 5 April 2005; since then the Pension Protection Fund has been performing a similar function.
3. The FAS is not a pension scheme. It makes payments to the members of qualifying pension schemes to top up any pension payments made by the scheme, bringing the total paid up to 90 per cent of the pension entitlement, subject to an overall cap.
4. The FAS is being extended so that it will, in the future, be responsible for making all of the payments due to qualifying members, including lump sums. This means that it will in future make payments similar to those made by a registered pension scheme.
5. Legislation will be introduced in Finance Bill 2009 to allow payments made by the FAS to be given broadly the same tax treatment as if they had been made by a registered pension scheme. This means that the individual will not be disadvantaged by incurring charges to income tax that would otherwise arise because the payment is received from a body that is not a registered pension scheme.

### Operative date

6. The measure will have effect for all payments made by the FAS, whenever made.

## **Current law and proposed revisions**

7. Registered pension schemes benefit from certain tax privileges, in return for providing scheme members with an income in retirement. Lump sum benefits are payable free of income tax if they satisfy certain rules.
8. As the FAS is not a registered pension scheme, lump sums paid by it would not benefit from the same tax reliefs as those paid by a registered pension scheme.
9. This measure introduces a regulation-making power regarding the application of taxes in relation to the FAS. Changes needed to achieve similar tax treatment for the FAS as for pension schemes can then be put in place by such regulations.

## **Further advice**

10. If you have any questions about this change, please contact Windy Kwok on 020 7147 2835 (email: [windy.kwok@hmrc.gsi.gov.uk](mailto:windy.kwok@hmrc.gsi.gov.uk)) or David Dodd on 020 7147 2829 (email: [david.dodd@hmrc.gsi.gov.uk](mailto:david.dodd@hmrc.gsi.gov.uk)). Information about Budget measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)