

# 2006 Pre-Budget Report



PBRN 13

6 December 2006

---

## CHANGES TO ALTERNATIVELY SECURED PENSION (ASP) RULES AND RULES TO PREVENT DEVICES DESIGNED TO PASS ON TAX-FAVOURED PENSION SAVINGS

---

### Who is likely to be affected?

1. Pension scheme administrators, members of registered pension schemes and their dependants, insurance companies and financial advisers.

### General description of the measure

#### ASP changes

2. The provisions on members' and dependants' ASPs will be tightened up. There will be a requirement to draw a minimum income from a member's or dependant's ASP fund. A higher maximum annual withdrawal from an ASP fund will also be introduced. A tax charge will be introduced where ASP funds remaining on the death of a member or a dependant of the member are transferred to the pension funds of other members in the scheme.

#### Preventing other devices designed to pass on tax-favoured pension savings

3. A tax charge will be imposed on those seeking to use other benefit options (for example, scheme pensions) as a means of passing on tax-favoured funds on or before the death of a member.

### Operative date

4. These changes will have effect on and after 6 April 2007.
5. HM Revenue & Customs (HMRC) will consult with interested parties to confirm that those members of registered pension schemes who either already have ASP funds, or will shortly be in that position, will on and after 6 December 2006 be able to reorganise their affairs to prevent them becoming liable to the tax charges imposed by the removal of the transfer lump sum death benefit facility as an authorised lump sum death benefit and by the removal of the guarantee facility for alternatively secured pensions.

## **Current law and proposed revisions**

### Alternatively secured pension changes

6. Currently, the pension tax rules permit a member of a registered pension scheme who reaches the age of 75 to continue to draw an income directly from the pension fund sums and assets in the form of an ASP. Similarly, dependants of deceased members may also go into an ASP when they reach the age of 75. There is no requirement to draw a minimum income from an ASP fund and the maximum annual withdrawal is 70 per cent of the annual amount of a comparable annuity (for a 75 year old) that could be purchased with the sums and assets in the fund. On death, any remaining funds may be used to provide dependants' pensions. If there are no dependants then the funds may be paid to charity, transferred to the pension pots of other members in the scheme (as transfer lump sum death benefits) or in limited circumstances be repaid to the employer with a tax charge. In Finance Act 2006, an Inheritance Tax charge was introduced on ASP funds remaining on the member's death, which applies to any funds not paid as pension benefits to a relevant dependant or to charity.
7. Changes will be made to the tax rules on members' and dependants' ASPs to:
  - introduce a minimum income requirement of 65 per cent of the annual amount of a comparable annuity (for a 75 year old) that could be purchased with the sums and assets in the fund. Failing to comply with this requirement will mean that the scheme administrator will become liable to a 40 per cent charge on the difference between the minimum income limit and the amount paid as pension income in the year;
  - increase the maximum annual withdrawal of income that is permitted from an ASP fund to 90 per cent of the annual amount of a comparable annuity (for a 75 year old) that could be purchased with the sums and assets in the fund;
  - remove from the authorised payment rules the transfer lump sum death benefit option; this will impose an unauthorised payment charge of up to 70 per cent where, on the death of a member or on the death of a dependant of the member, any remaining ASP funds are transferred to the pension funds of other members of the scheme;
  - remove the facility to make payments under a guarantee from an ASP fund; and
  - allow charity lump sum death benefits to be paid at the nomination of the scheme administrator, where there is no member nomination.
8. The Inheritance Tax charges introduced in Finance Act 2006 on ASP funds will remain in place. The Government is considering how best to ensure the rules work and interact correctly with the new unauthorised payment provisions. HMRC will discuss this with interested parties.
9. Draft legislation has today been published, which sets out further details of these measures. It is intended to include this legislation in Finance Bill

2007. HMRC will discuss with interested parties what alternative provisions are needed for those the cases where providers currently use ASP as a means to hold in suspense the funds of members which they have been unable to trace by age 75. These discussions will take into account the need to minimise the costs of dealing with this group and also to ensure an appropriate outcome for the member.

Preventing other devices designed to pass on tax-favoured pension savings

10. The Government will introduce measures in Finance Bill 2007 to prevent other pension options, such as scheme pensions, being used as a route to pass on tax-favoured pension savings. These measures will have effect on and after 6 April 2007.
11. HMRC will consult with interested parties about the measures to be included in Finance Bill 2007 to ensure they affect only those schemes or arrangements that are designed to pass on tax-favoured pension savings.

**Further advice**

12. These changes are included in a partial Regulatory Impact Assessment published today covering all changes to the pension tax rules. If you have any questions about these changes, please contact the Pensions Helpline on 0115 974 1600. Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)