Bridging pensions

Who is likely to be affected?
Individuals receiving, or with a right to receive, a bridging pension from a registered pension scheme; pension providers; pension scheme administrators; and employers.

General description of the measure
This measure aligns the tax rules on the payment of bridging pensions with the Department for Work & Pensions changes to the state pension age. Bridging pensions may be paid by occupational pension schemes when an individual starts receiving a pension before state pension age. The pension is higher at the outset and, when the individual reaches state pension age, it is reduced.

Policy objective
This measure supports the Government's objective of promoting fairness in the tax system by ensuring that pension schemes can pay bridging pensions up to the new state pension age without incurring an unauthorised payments tax charge.

Background to the measure
The Government announced at Budget 2012 that changes would be made to the pensions tax legislation to reflect the increase in state pension age.

Detailed proposal
Operative date
This measure will have effect in relation to bridging pension payments made on or after 6 April 2013.

Current law
The current pensions tax rules for registered pension schemes came into force on 6 April 2006 and are set out in Part 4 of the Finance Act (FA 2004).

Paragraph 2 of Schedule 28 FA 2004 sets out when a pension payable to a member is a scheme pension.

Paragraph (2)(3) ensures that the pension must remain level in order to continue to qualify as a scheme pension.

Paragraphs 2(4)(a) to 2(4)(h) set out the circumstances when a reduction in level of pension is allowable.

Paragraph (2)(4)(c) allows the pension to reduce not earlier than when the member reaches age 60 and no later than age 65 by an amount that does not exceed state retirement pension. This allows the scheme to pay a bridging pension at the outset and reduce it when the member starts to receive state retirement pension.
Proposed revisions

Legislation will be introduced in Finance Bill 2013 to amend paragraph 2 of Schedule 28 FA 2004 to introduce a permitted period during which the pension can be reduced. This permitted period will allow the reduction to take place between the age of 60 and state pension age.

Consequential amendments to paragraph 1 of Schedule 29 FA 2004 will also be introduced and paragraph 21 of Schedule 23 to FA 2006 will be repealed.

Summary of impacts

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<td>This measure is not expected to have an Exchequer impact.</td>
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<th>Economic impact</th>
<th>The measure is not expected to have any significant economic impacts.</th>
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<th>Impact on individuals and households</th>
<th>There is no impact on individuals and households as the measure maintains the status quo in allowing bridging pensions to be paid up until state pension age.</th>
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<th>Equalities impacts</th>
<th>This measure does not impact any protected equality group.</th>
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<th>Impact on business including civil society organisations</th>
<th>This measure is not expected to impact on businesses or civil society organisations as there are no changes to the information that will be provided to HMRC by occupational pension schemes who make bridging pension payments as no specific information on bridging pensions is reported.</th>
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<th>Operational impact (£m) (HMRC or other)</th>
<th>It is not anticipated that implementing this change will incur any additional costs or savings for HMRC.</th>
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<th>Other impacts</th>
<th>Small firms impact test: This change will impact on small and large firms in the same way but impacts are negligible for both. Other impacts have been considered and none have been identified.</th>
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Monitoring and evaluation

This measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this measure, please contact Samantha Skill on 03000 564149 (email: pensions.policy@hmrc.gsi.gov.uk).
1 Bridging pensions

(1) The FA 2004 is amended as follows.

(2) In paragraph 2 of Schedule 28 (pension rules: meaning of scheme pension)—
   (a) in sub-paragraph (4)(c)—
      (i) for the words from “not earlier” to “65” substitute “during the permitted period”, and
      (ii) after “which” insert “together with any previous reductions under this paragraph (c)”, and
   (b) after sub-paragraph (4A) insert—
      “(4B) In sub-paragraph (4)(c) “the permitted period” means the period beginning with the day on which the member reaches the age of 60 and ending with the day on which the member reaches the age of 65 or, if later, reaches pensionable age.”

(3) In paragraph 1 of Schedule 29 (pension commencement lump sums), in sub-paragraph (4)(a), omit the words from “at a time” to “65”.

(4) In consequence of subsection (3), paragraph 21 of Schedule 23 to the FA 2006 is repealed.

(5) The amendments made by this section have effect for the tax year 2013-14 and subsequent tax years.
EXPLANATORY NOTE

BRIDGING PENSIONS

SUMMARY

1. The clause enables a registered pension scheme to continue to pay a bridging pension until a member’s state pension age. Previously, a bridging pension had to be reduced by age 65.

DETAILS OF THE CLAUSE

2. Subsection (1) explains that the clause is amending the provisions of Finance Act (FA) 2004.

3. Subsection (2) amends paragraph 2 of Schedule 28 to FA 2004 to provide that the age at which a bridging pension must be reduced is 65 or, if later, state retirement age (referred to as “pensionable age”, which is defined in section 279(1) of FA 2004). It also ensures that if multiple reductions take place, those reductions when aggregated must not exceed the maximum reduction allowed.

4. Subsection (3) amends paragraph 1 of Schedule 29 to FA 2004 to remove the reference to age 65 from the description of an excluded pension commencement lump sum. This reflects the amendments made by subsection (2) and means that bridging pensions which reduce after the age of 65 will not be excluded lump sums as a result and will not be subject to unauthorised payments tax charges.

5. Subsection (4) repeals paragraph 21 of Schedule 23 to FA 2006, which inserted the wording omitted by subsection (3).

6. Subsection (5) brings the clause into force for the tax year 2013-14 and subsequent tax years.

BACKGROUND NOTE

7. A pension from a registered pension scheme is not normally allowed to be reduced when in payment.

8. There are some exceptions to this rule, one of which is where a ‘bridging pension’ is being paid.

9. A ‘bridging pension’ is the term used to describe a pension that is higher at the outset and then reduced at the age at which the individual can claim for the state pension.
10. If a pension is reduced at any time other than when permitted under paragraph 2(4) Schedule 28 FA 2004, all future payments of that pension are unauthorised payments and subject to the unauthorised payments tax charges.

11. The existing legislation meant that the bridging pension had to be reduced by the age of 65. However, changes to the age at which state pension is paid meant that this reduction might occur before the member could receive their state pension.

12. The changes made by this clause will mean that pension schemes can continue to pay a bridging pension up to a member’s state pension age without incurring unauthorised payments tax charges. The legislation will remain in line with the policy intention.

13. The Government announced at Budget 2012 that changes would be introduced with effect from 6 April 2013 to align tax rules with changes to state pension age being introduced by the Department for Work and Pensions.

14. If you have any questions about this change, or comments on the legislation, please contact Samantha Skill on 03000 564149 (email: samantha.skill@hmrc.gsi.gov.uk ).