



# Finance (No. 2) Act 2005

## 2005 CHAPTER 22

### PART 2

#### INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

### CHAPTER 1

#### PERSONAL TAXATION

##### *Social security pension lump sums*

#### **7 Charge to income tax on lump sum**

- (1) A charge to income tax arises where a person becomes entitled to a social security pension lump sum.
- (2) For the purposes of the Tax Acts (including subsection (5)) a social security pension lump sum—
  - (a) is to be treated as income, but
  - (b) is not to be taken into account in determining the total income of any person.
- (3) The person liable to a charge under this section is the person (“P”) entitled to the lump sum, whether or not P is resident <sup>F1</sup>... or domiciled in the United Kingdom.
- (4) The charge is imposed on P for the applicable year of assessment (see subsection (6)).
- (5) A charge under this section [<sup>F2</sup>for a person who is [<sup>F3</sup>neither a Scottish taxpayer nor a Welsh taxpayer] in the applicable year of assessment] is a charge in respect of the amount of the lump sum at the following rate—
  - (a) if P's [<sup>F4</sup>Step 3 income] for the applicable year of assessment is nil, 0%;
  - <sup>F5</sup>(b) .....

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- (c) if P's [<sup>F4</sup>Step 3 income] for that year of assessment [<sup>F6</sup>is greater than nil] but does not exceed the basic rate limit for that year, the basic rate <sup>F7</sup>... for that year;
  - (d) if P's [<sup>F4</sup>Step 3 income] for that year of assessment exceeds the basic rate limit for that year [<sup>F8</sup>but does not exceed the higher rate limit for that year], the higher rate <sup>F9</sup>... for that year.
  - <sup>F10</sup>(e) if P's Step 3 income for that year of assessment exceeds the higher rate limit for that year, the additional rate <sup>F11</sup>... for that year.]
- <sup>F12</sup>(5A) Where P is a Scottish taxpayer in the applicable year of assessment, a charge under this section is a charge in respect of the amount of the lump sum at the following rate—
- (a) if P's Step 3 income for the applicable year of assessment is nil, 0%;
  - <sup>F13</sup>(b) .....
  - (c) if P's Step 3 income for that year of assessment [<sup>F14</sup>is greater than nil], the highest Scottish rate for that tax year that [<sup>F15</sup>would be applicable to an amount of income that is equal to P's Step 3 income(2) for that year if such amount were wholly chargeable to income tax at Scottish rates].]
- <sup>F16</sup>(5B) Where P is a Welsh taxpayer in the applicable year of assessment, a charge under this section is a charge in respect of the amount of the lump sum at the following rate—
- (a) if P's step 3 income for the applicable year of assessment is nil, 0%;
  - (b) if P's step 3 income for that year of assessment is greater than nil but does not exceed the basic rate limit for that year, the Welsh basic rate for that year;
  - (c) if P's step 3 income for that year of assessment is greater than the basic rate limit but does not exceed the higher rate limit for that year, the Welsh higher rate for that year;
  - (d) if P's step 3 income for that year of assessment is greater than the higher rate limit for that year, the Welsh additional rate for that year.]
- (6) Section 8 makes provision as to the meaning of “the applicable year of assessment” for the purposes of this section.
- (7) Section 9 contains further definitions and makes provision as to commencement.
- (8) Section 10 contains consequential amendments.
- <sup>F17</sup>(9) For the purposes of this section P's “ Step 3 income ” means P's net income less allowances deducted at Step 3 of the calculation in section 23 of ITA 2007 (calculation of income tax liability).]

#### **Textual Amendments**

- F1** Words in s. 7(3) omitted (with effect in accordance with Sch. 46 para. 135(2) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 135\(1\)](#)
- F2** Words in s. 7(5) inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Scotland Act 2016 \(Income Tax Consequential Amendments\) Regulations 2017 \(S.I. 2017/468\)](#), [regs. 1\(1\)](#), [9\(2\)\(a\)](#)
- F3** Words in s. 7(5) substituted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\)](#), [arts. 1\(1\)](#), [11\(2\)](#)
- F4** Words in s. 7(5) substituted (6.4.2007) by [Income Tax Act 2007 \(c. 3\)](#), [s. 1034\(1\)](#), [Sch. 1 para. 604\(2\)](#) (with [Sch. 2](#))

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- F5** S. 7(5)(b) omitted (with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of Finance Act 2008 (c. 9), **Sch. 1 para. 64(a)**
- F6** Words in s. 7(5)(c) substituted (with effect in accordance with Sch. 1 para. 65 of the amending Act) by Finance Act 2008 (c. 9), **Sch. 1 para. 64(b)**
- F7** Words in s. 7(5)(c) omitted (with effect in accordance with reg. 1(2) of the amending S.I.) by virtue of The Scotland Act 2016 (Income Tax Consequential Amendments) Regulations 2017 (S.I. 2017/468), regs. 1(1), **9(2)(b)**
- F8** Words in s. 7(5)(d) inserted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by Finance Act 2009 (c. 10), **Sch. 2 para. 24(a)**
- F9** Words in s. 7(5)(d) omitted (with effect in accordance with reg. 1(2) of the amending S.I.) by virtue of The Scotland Act 2016 (Income Tax Consequential Amendments) Regulations 2017 (S.I. 2017/468), regs. 1(1), **9(2)(c)**
- F10** S. 7(5)(e) inserted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by Finance Act 2009 (c. 10), **Sch. 2 para. 24(b)**
- F11** Words in s. 7(5)(e) omitted (with effect in accordance with reg. 1(2) of the amending S.I.) by virtue of The Scotland Act 2016 (Income Tax Consequential Amendments) Regulations 2017 (S.I. 2017/468), regs. 1(1), **9(2)(d)**
- F12** S. 7(5A) inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by The Scotland Act 2016 (Income Tax Consequential Amendments) Regulations 2017 (S.I. 2017/468), regs. 1(1), **9(3)**
- F13** S. 7(5A)(b) omitted (6.4.2018) by virtue of The Scottish Rates of Income Tax (Consequential Amendments) Order 2018 (S.I. 2018/459), arts. 1(2), **5(2)(a)**
- F14** Words in s. 7(5A)(c) substituted (6.4.2018) by The Scottish Rates of Income Tax (Consequential Amendments) Order 2018 (S.I. 2018/459), arts. 1(2), **5(2)(b)(i)**
- F15** Words in s. 7(5A)(c) substituted (with effect in accordance with art. 1(2) of the amending S.I.) by The Scottish Rates of Income Tax (Consequential Amendments) Order 2021 (S.I. 2021/190), arts. 1(1), **2**
- F16** S. 7(5B) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by The Devolved Income Tax Rates (Consequential Amendments) Order 2019 (S.I. 2019/201), arts. 1(1), **11(3)**
- F17** S. 7(9) inserted (6.4.2007) by Income Tax Act 2007 (c. 3), s. 1034(1), **Sch. 1 para. 604(3)** (with Sch. 2)

**Changes to legislation:**

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