



# Finance (No. 2) Act 2023

## 2023 CHAPTER 30

### PART 1

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

#### *Pensions*

#### **18 Lifetime allowance charge abolished**

- (1) No lifetime allowance charge arises for the tax year 2023-24 or any subsequent tax year.
- (2) Subsection (1) does not affect the continued operation of any provision of Part 4 of FA 2004 (pension schemes etc) so far as it has effect for purposes other than that of determining a person's liability for the lifetime allowance charge.

#### **19 Certain lump sums to be taxed at marginal rate**

- (1) Subsection (2) applies to any relevant lump sum, or any part of a relevant lump sum, that—
  - (a) is paid under a registered pension scheme, and
  - (b) would, disregarding section 18, have been chargeable to income tax under sections 214 to 226 of FA 2004 (lifetime allowance charge).
- (2) Section 579A of ITEPA 2003 (pensions under registered pension schemes) applies in relation to the relevant lump sum or part of the relevant lump sum as it applies to any pension under a registered pension scheme.
- (3) Subsection (4) applies to any lump sum, or any part of a lump sum, that—
  - (a) is paid under a relieved non-UK pension scheme,
  - (b) would have been a relevant lump sum within subsection (5)(a), (c) or (d) if it had been paid under a registered pension scheme, and
  - (c) would, disregarding section 18, have been chargeable to income tax under sections 214 to 226 of FA 2004 (as applied by paragraphs 13 to 19 of

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Schedule 34 to FA 2004 (application of lifetime allowance charge to non-UK schemes)).

- (4) Section 573 of ITEPA 2003 (foreign pensions) applies in relation to the lump sum or part of the lump sum as it applies to any pension paid by or on behalf of a person who is outside the United Kingdom to a person who is resident in the United Kingdom.
- (5) In this section “relevant lump sum” means—
- (a) a serious ill-health lump sum,
  - (b) a lifetime allowance excess lump sum,
  - (c) a defined benefits lump sum death benefit, or
  - (d) an uncrystallised funds lump sum death benefit;
- (6) Expressions used in subsection (5) have the same meaning as in Part 4 of FA 2004 (see Schedule 29 to that Act).
- (7) In this section—
- “registered pension scheme” has the same meaning as in Part 4 of FA 2004 (see section 150(2) of that Act);
- “relieved non-UK pension scheme” has the meaning given by paragraph 13(3) of Schedule 34 to FA 2004.
- (8) This section has effect for the tax year 2023-24 and subsequent tax years.

## **20 Annual allowance increased**

- (1) In Part 4 of FA 2004 (pension schemes etc), section 228 (annual allowance) is amended as follows.
- (2) For subsection (1) substitute—
- “(1) The annual allowance for the tax year 2023-24 and, subject to subsection (2), each subsequent tax year is £60,000.”
- (3) In subsection (2) for “2014-15” substitute “2023-24”.

## **21 Money purchase annual allowance**

- (1) Part 4 of FA 2004 (pension schemes etc) is amended as follows.
- (2) In the following provisions, for “£4,000” substitute “£10,000”—
- (a) section 227ZA(1)(b);
  - (b) section 227B(1)(b) and (2);
  - (c) in section 227D(4), Steps 4 and 5.
- (3) In consequence of the amendments made by this section, in F(No.2)A 2017, omit section 7.
- (4) The amendments made by this section have effect for the tax year 2023-24 and subsequent tax years.

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## 22 Annual allowance: tapering

- (1) In Part 4 of FA 2004 (pension schemes etc), section 228ZA (tapered reduction of annual allowance) is amended as follows.
- (2) In subsection (1)—
  - (a) for “£4,000” substitute “£10,000”;
  - (b) for “£240,000” substitute “£260,000”.
- (3) In subsection (3)(a) and (b), for “£240,000” substitute “£260,000”.
- (4) The amendments made by this section have effect for the tax year 2023-24 and subsequent tax years.

## 23 Modification of certain existing transitional protections

- (1) In Part 4 of FA 2004 (pension schemes etc), Schedule 36 (transitional provisions) is amended in accordance with subsections (2) and (3).
- (2) In paragraph 12 (enhanced protection), in sub-paragraph (2), after “ceases to apply if” insert “the notice under sub-paragraph (1) is given on or after 15 March 2023 and”.
- (3) In paragraph 27 (enhanced protection: modifications of paragraph 2 of Schedule 29), in sub-paragraph (3), in the substituted sub-paragraph (5) of paragraph 2, for the words after “the permitted maximum is” substitute “the lower of—
  - (a) the applicable amount calculated in accordance with paragraph 3, and
  - (b) the amount that would have been the applicable amount calculated in accordance with paragraph 3 if the lump sum had been paid on 5 April 2023.”
- (4) In the Taxation of Pension Schemes (Transitional Provisions) Order 2006 ([S.I. 2006/572](#)), in article 25C (payment of stand-alone lump sums: tax consequences), for paragraph (3) substitute—
  - (3A) Section 636A of ITEPA 2003 (exemptions and liabilities for certain lump sums under registered pension schemes) is to be read as if, after subsection (1C), there were inserted—
    - (1D) In the case of a stand-alone lump sum paid under a registered pension scheme—
      - (a) no liability to income tax arises on so much of the sum as does not exceed the 5 April 2023 maximum, and
      - (b) section 579A applies in relation to the remainder (if any) of the sum as that section applies to any pension under a registered pension scheme.
    - (1E) In subsection (1D) and this subsection—
      - (a) “stand-alone lump sum” has the meaning given by paragraph (3) of article 25 of the Taxation of Pension Schemes (Transitional Provisions) Order 2006 ([S.I. 2006/572](#));
      - (b) “the 5 April 2023 maximum” means the maximum amount that, on 5 April 2023, could have been paid to the member under the registered pension scheme by way of a stand-alone lump sum.

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- (1F) For the purposes of determining the maximum amount mentioned in paragraph (b) of subsection (1E), condition C in article 25A of the order mentioned in paragraph (a) of that subsection (condition that member has reached normal minimum pension age etc) is treated as met.””
- (5) In FA 2011, in Schedule 18, in paragraph 14 (fixed protection 2012) in sub-paragraph (4), after “ceases to apply if” insert “the notice under sub-paragraph (1) or (as the case may be) sub-paragraph (1A) is given on or after 15 March 2023 and”.
- (6) In FA 2013, in Schedule 22, in paragraph 1 (fixed protection 2014), in sub-paragraph (3), after “ceases to apply if” insert “the notice under sub-paragraph (1) is given on or after 15 March 2023 and”.
- (7) In FA 2016, in Schedule 4, in Part 1 (fixed protection 2016), in paragraph 3, after “There is a protection-cessation event if” insert “the reference number for the purposes of paragraph 1(2) was issued pursuant to an application made on or after 15 March 2023 and”.
- (8) The amendments made by this section have effect for the tax year 2023-24 and subsequent tax years.

## 24 Collective money purchase arrangements

- (1) Part 4 of FA 2004 (pension schemes) is amended in accordance with subsections (2) to (8).
- (2) In section 152 (meaning of arrangement), in subsection (5A)—
- (a) the words after “means benefits that are” become paragraph (a);
  - (b) at the end of that paragraph insert “, or”;
  - (c) after that paragraph insert—
 

“(b) payments of CMP periodic income.”
- (3) In section 169 (recognised transfers), after subsection (1E) insert—
- “(1F) The Commissioners for His Majesty’s Revenue and Customs may by regulations make provision as to the treatment for the purposes of any provision of this Part of a CMP-derived drawdown pension.
- (1G) The provision that may be made under subsection (1F) includes provision for treating sums or assets held for the purposes of a CMP-derived drawdown pension as remaining, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, held for the purposes of the collective money purchase arrangement under the pension scheme from which they were transferred.”
- (4) In section 279 (other definitions), after subsection (1E) insert—
- “(1F) For the purposes of this Part a “CMP-derived drawdown pension” means a drawdown pension (within the meaning given by paragraph 4 of Schedule 28) where—
- (a) the sums or assets constituting the fund from which the pension is payable were transferred from another pension scheme, and

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(b) before the transfer, those sums or assets were held for the purposes of paying CMP periodic income.

(1G) For the purposes of this Part “CMP periodic income” means income payable by virtue of section 36(7)(b) or 87(7)(b) of the Pension Schemes Act 2021 (periodic income paid under collective money purchase arrangement while pursuing continuity option 1).”

(5) In section 280 (abbreviations and general index), in subsection (2) at the appropriate places insert—

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“CMP-derived drawdown pension	section 279(1F)”
“CMP periodic income	section 279(1G)”.

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(6) In Schedule 28 (registered pension schemes: authorised pensions - supplementary), in Part 2 (pension death benefit rules), in paragraph 16A (limit on dependant’s scheme pension), after sub-paragraph (2) insert—

“(3) Where, immediately before the member’s death, the member is actually or prospectively entitled to CMP periodic income, any CMP periodic income that is at any later time payable to a dependant of the member is to be ignored for the purposes of paragraphs 16AA to 16B.”

(7) In Schedule 29 (authorised lump sums - supplementary), in Part 1 (lump sum rule), in paragraph 1, for sub-paragraph (4A) substitute—

“(4A) A lump sum is an excluded lump sum if the pension in connection with which the member becomes entitled to it is a CMP-derived drawdown pension.”

(8) In Schedule 32 (benefit crystallisation events - supplementary), for paragraph 2B substitute—

“2B (1) This paragraph applies for the purposes of benefit crystallisation event 1 where the sums or assets designated are, after the designation, held for the purposes of a CMP-derived drawdown pension.

(2) The amount crystallised by the event is to be reduced by the amount (or an appropriate proportion of the amount) crystallised on the individual becoming entitled to a scheme pension under the collective money purchase arrangement for the purposes of which the sums or assets were previously held.”

(9) In consequence of the amendments made by the preceding provisions of [this section](#), the following provisions of Schedule 5 to FA 2021 are omitted—

- (a) paragraph 21(2)(b);
- (b) paragraph 22(2).

(10) The Registered Pension Schemes (Transfer of Sums and Assets) Regulations 2006 (S.I. 2006/499) are amended in accordance with subsections (11) and (12).

(11) In regulation 3 (scheme pension payable by registered pension scheme - recognised transfers), at the end insert—

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“(3) Paragraphs (1) and (2) do not apply in relation to a transfer within section 169(1) or (1A) of sums or assets which, before the transfer, were held for the purposes of paying CMP periodic income.

(4) Such a transfer is not a recognised transfer unless the sums and assets transferred are, after the transfer, applied towards the provision of a drawdown pension (within the meaning given by paragraph 4 of Schedule 28).”

(12) In regulation 5 (term and reduction in rate of scheme pension), in paragraph (1), in the opening words, for “3 or 4” substitute “3(1) or (2) or regulation 4.”.

## 25 Relief relating to net pay arrangements

In FA 2004, in Part 4 (pension schemes etc), in Chapter 4 (certain tax reliefs and exemptions), after section 193 (relief under net pay arrangements) insert—

### “193A Net pay arrangements: relief where no income tax liability

- (1) This section applies where—
- (a) an individual is entitled to be given relief in accordance with section 193 in respect of the payment of a contribution under a pension scheme,
  - (b) the individual is entitled to a personal allowance, in accordance with section 35(1) of ITA 2007 (personal allowance), for the tax year in which the payment is made (“the relevant tax year”), and
  - (c) the amount of the individual’s total income for the relevant tax year does not exceed the personal allowance specified in section 35(1) of ITA 2007 for the relevant tax year.
- (2) The Commissioners for His Majesty’s Revenue and Customs must make arrangements to secure that, so far as reasonably practicable and subject to provision made under subsection (5), they pay to the individual the appropriate amount in relation to the contribution.
- (3) The appropriate amount is—
- (a) where the individual’s total income for the relevant tax year plus the contribution does not exceed the personal allowance specified in section 35(1) of ITA 2007 for the relevant tax year, an amount equal to income tax at the relevant rate on the whole of the contribution, and
  - (b) where the individual’s total income for the relevant tax year plus the contribution does exceed the personal allowance specified in section 35(1) of ITA 2007 for the relevant tax year, an amount equal to income tax at the relevant rate on an amount calculated in accordance with this formula—

$$C - E$$

where—

C equals the whole of the contribution, and

E equals the amount by which the personal allowance is exceeded by the individual’s total income for the relevant tax year plus the contribution.

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- (4) The arrangements must secure that an amount which the Commissioners are required to pay in relation to a contribution is paid as soon as reasonably practicable after the tax year in which the contribution is paid.
- (5) The arrangements must include a procedure for the purposes of allowing an individual to whom an amount would otherwise have to be paid under subsection (2) to decline to receive that amount.
- (6) For the purposes of income tax, apart from determining whether this section applies or calculating the appropriate amount in accordance with subsection (3), an amount paid to an individual in accordance with the arrangements is to be treated as if it were earnings within Chapter 1 of Part 3 of ITEPA 2003—
  - (a) from an employment in the relevant tax year, and
  - (b) in respect of duties performed in the United Kingdom.
- (7) In subsection (3), “the relevant rate” is—
  - (a) where the individual is a Scottish taxpayer for the relevant tax year, the Scottish basic rate for that year,
  - (b) where the individual is a Welsh taxpayer for the relevant tax year, the Welsh basic rate for that year, and
  - (c) in all other cases, the basic rate for that tax year.
- (8) In this section, “total income” has the meaning given by section 23 of ITA 2007 (the calculation of income tax liability).
- (9) The Treasury may by regulations amend or otherwise modify this section.
- (10) Regulations under subsection (9) may make different provision for different purposes.”

**Changes to legislation:**

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