
Changes to legislation: There are outstanding changes not yet made by the legislation.gov.uk editorial team to Finance Act 2024. Any changes that have already been made by the team appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

SCHEDULES

SCHEDULE 9

PENSIONS

PART 2

TAXATION OF LUMP SUMS

Amendments of Part 4 of FA 2004 (pension schemes etc)

- 26 (1) Paragraphs 1 to 3A (pension commencement lump sums) are amended as follows.
- (2) In paragraph 1 (pension commencement lump sum)—
- (a) in sub-paragraph (1)—
- (i) in paragraph (b) for the words from “lifetime allowance” to the end substitute “lump sum allowance is available, and all or part of the member’s lump sum and death benefit allowance is available (see paragraph 12A),”;
- (ii) in sub-paragraph (f) for “sub-paragraphs (4) and (4A)” substitute “sub-paragraph (4A)”;
- (b) omit sub-paragraphs (3A), (4) and (6).
- (3) Omit paragraphs 1A and 1B (which modify the definition of “pension commencement lump sum” in relation to certain lump sums paid before 6 April 2015 and are therefore no longer of practical utility).
- (4) For paragraph 2 (definition of “the permitted maximum”) substitute—
- “2 In paragraph 1 “the permitted maximum”, in relation to a lump sum, means the lowest of the following amounts—
- (a) the applicable amount in relation to the relevant pension (see paragraphs 2A to 2D);
- (b) so much of the member’s lump sum allowance as is available on the individual becoming entitled to the lump sum (see paragraph 12A);
- (c) so much of the member’s lump sum and death benefit allowance as is available on the individual becoming entitled to the lump sum (see paragraph 12A).”
- (5) For paragraph 3 (definition of “the applicable amount”) substitute—
- “2A (1) This paragraph defines “the applicable amount” in relation to a relevant pension in a case in which the relevant pension is income withdrawal.
- (2) The applicable amount is one third of the scheme pension capital value.

Changes to legislation: There are outstanding changes not yet made by the legislation.gov.uk editorial team to Finance Act 2024. Any changes that have already been made by the team appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

- (3) The scheme pension capital value is (subject to sub-paragraph (4)) the aggregate of—
- (a) the sums designated as available for the payment of drawdown pension on that occasion, and
 - (b) the market value of the assets so designated.
- (4) There is to be deducted from the amount determined under sub-paragraph (3) so much (if any) of the sums and assets designated as mentioned in sub-paragraph (3)(a) or (b) as represent rights attributable to a disqualifying pension credit.
- 2B (1) This paragraph defines “the applicable amount” in relation to a relevant pension in a case in which the relevant pension is a lifetime annuity.
- (2) The applicable amount is one third of the annuity purchase price.
- (3) The annuity purchase price is (subject to sub-paragraph (4)) the aggregate of—
- (a) such of the sums held for the purposes of the pension scheme, and
 - (b) the market value of such of the assets held for the purposes of the pension scheme,
- as are applied in (or in connection with) the purchase of the lifetime annuity and any related dependants’ annuity and any related nominees’ annuity.
- (4) There is to be deducted from the amount determined under sub-paragraph (3)—
- (a) if the sums or assets applied in (or in connection with) the purchase of the annuity or any related dependants’ annuity or any related nominees’ annuity consist of, or include, sums or assets representing the whole or part of the member’s drawdown pension fund or of the member’s flexi-access drawdown fund, the aggregate of those sums and the market value of those assets, and
 - (b) in any case, so much (if any) of the sums or assets applied in (or in connection with) the purchase of the annuity or any related dependants’ annuity or any related nominees’ annuity as represents rights which are attributable to a disqualifying pension credit.
- 2C (1) This paragraph defines “the applicable amount” in relation to a relevant pension in a case in which the relevant pension is—
- (a) a scheme pension under a defined benefits arrangement, or
 - (b) a collective money purchase arrangement.
- (2) The applicable amount is (subject to sub-paragraph (3))—
- $$\frac{A + (B \times C) - D}{4}$$

where—

A is the amount of the lump sum;

B is the relevant revaluation factor (see section 276);

Changes to legislation: There are outstanding changes not yet made by the legislation.gov.uk editorial team to Finance Act 2024. Any changes that have already been made by the team appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

C is the amount of the pension which will be payable to the member in the period of 12 months beginning with the day on which the member becomes entitled to the pension (assuming that it remains payable throughout that period at the rate at which it is payable on that day);

D is so much (if any) of A or C as represents rights which are attributable to a disqualifying pension credit.

(3) In determining C for the purposes of subsection (2) in a case in which the pension is under a public service pension scheme, any abatement of the pension is to be left out of account.

2D (1) This paragraph defines “the applicable amount” in relation to a relevant pension in a case in which the relevant pension is a scheme pension under a money purchase arrangement that is not a collective money purchase arrangement.

(2) The applicable amount is one third of the scheme pension purchase price.

(3) The scheme pension purchase price is (subject to sub-paragraph (4)) the aggregate of—

- (a) such of the sums held for the purposes of the pension scheme, and
- (b) the market value of such of the assets held for the purposes of the pension scheme,

as are applied in (or in connection with) the purchase or provision of the scheme pension and any related dependants’ scheme pension.

(4) There is to be deducted from the amount determined under sub-paragraph (3)—

- (a) if the scheme pension is funded (in whole or in part) by the application of sums or assets representing the whole or part of the member’s drawdown pension fund or of the member’s flexi-access drawdown fund, the aggregate of those sums and the market value of those assets, and
- (b) in any case, so much (if any) of the sums and assets referred to in sub-paragraph (3)(a) and (b) as represent rights which are attributable to a disqualifying pension credit.”

(6) Before paragraph 3A (anti-avoidance rule to prevent recycling of pension commencement lump sum) insert the following heading—

“Pension commencement lump sums: anti-avoidance”.

(7) In paragraph 3A(5), for paragraphs (a) and (b) substitute “the amount of the lump sum”.

(8) After paragraph 3A insert—

“3B (1) Sub-paragraph (2) applies if—

- (a) sums or assets held for the purposes of, or representing accrued rights under, a money purchase arrangement relating to the member under a registered pension scheme (“member money

Changes to legislation: There are outstanding changes not yet made by the legislation.gov.uk editorial team to Finance Act 2024. Any changes that have already been made by the team appear in the content and are referenced with annotations. (See end of Document for details) [View outstanding changes](#)

- purchase funds”) are subject to a relevant surrender or a relevant transfer,
- (b) the sole or main purpose of the relevant surrender or relevant transfer is to increase the applicable amount for the purposes of paragraph 2 on the member becoming entitled to a scheme pension, and
 - (c) the member becomes entitled to a scheme pension under a relevant defined benefits arrangement.
- (2) The pension scheme under which the relevant defined benefits arrangement is an arrangement is to be treated as making an unauthorised payment to the member of the amount by which—
- (a) the applicable amount in relation to the relevant defined benefits arrangement (as determined under paragraph 2C), exceeds
 - (b) what would be the applicable amount (as determined under paragraph 2D) if the arrangement were a money purchase arrangement.
- (3) For the purposes of sub-paragraph (1)—
- (a) member money purchase funds are subject to a “relevant surrender” if they are surrendered and, in consequence of the surrender, there is a corresponding increase in the sums or assets held for the purposes of, or representing rights under, a defined benefits arrangement relating to the member under the pension scheme (or such an arrangement is established), and
 - (b) member money purchase funds are subject to a “relevant transfer” if they are transferred so as to become held for the purposes of, or to represent rights under, a defined benefits arrangement relating to the member under any other registered pension scheme.
- (4) In this paragraph “relevant defined benefits arrangement” means—
- (a) the defined benefits arrangement mentioned in paragraph (a) or (b) of sub-paragraph (3), or
 - (b) any other defined benefits arrangement relating to the member (under the pension scheme or any other registered pension scheme) in the case of which any of the sums or assets held for the purposes of, or representing accrued rights under, the arrangement directly or indirectly represent sums or assets previously held for the purposes of, or representing accrued rights under, the defined benefits arrangement so mentioned.”
- (9) After paragraph 3B (as inserted by sub-paragraph (8)) insert—

“Pension commencement excess lump sum

- 3C (1) For the purposes of this Part a lump sum is a pension commencement excess lump sum if—
- (a) the member becomes entitled to it in connection with becoming entitled to a relevant pension (or dies after becoming entitled to it but before becoming entitled to the relevant pension in connection with which it was anticipated that the member would become entitled to it);

Changes to legislation: There are outstanding changes not yet made by the legislation.gov.uk editorial team to Finance Act 2024. Any changes that have already been made by the team appear in the content and are referenced with annotations. (See end of Document for details) [View outstanding changes](#)

- (b) it is paid when none of the member’s lump sum allowance is available (see paragraph [12A](#));
 - (c) it is paid within the period beginning six months before, and ending one year after, the day on which the member becomes entitled to it;
 - (d) it does not reduce the rate of payment of any pension to which the member has become (actually) entitled, or extinguish the member’s entitlement to payment of any such pension;
 - (e) it is paid when the member has reached normal minimum pension age (or the ill-health condition is met); and
 - (f) it is not an excluded lump sum (see [sub-paragraph \(4\)](#)).
- (2) But if a lump sum falling within sub-paragraph (1) exceeds the permitted maximum, the excess is not a pension commencement excess lump sum.
- (3) In this paragraph “the permitted maximum”, in relation to a lump sum, means—
- $$(A \times 4) - B$$
- where—
- “A” is the applicable amount in relation to the relevant pension (see paragraphs [2A](#) to [2D](#));
 - “B” is the amount of the member’s lump sum and death benefit allowance that is available on the payment of the lump sum (see paragraph [12A](#)).
- (4) A lump sum is an “excluded lump sum” if—
- (a) it would, apart from this paragraph, be permitted to be paid under the lump sum rule in section 166, or
 - (b) the pension in connection with which the member becomes entitled to it is a CMP-derived drawdown pension.
- (5) In determining for the purposes of this paragraph—
- (a) whether any of a member’s lump sum allowance is available on the payment of a lump sum, or
 - (b) the amount of a member’s lump sum and death benefit allowance that is available on the payment of a lump sum,
- the member is treated as having already become entitled to any pension commencement lump sum that is paid to the member in connection with becoming entitled to the relevant pension.”

Changes to legislation:

There are outstanding changes not yet made by the legislation.gov.uk editorial team to Finance Act 2024. Any changes that have already been made by the team appear in the content and are referenced with annotations.

[View outstanding changes](#)

Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- Sch. 9 para. 132(1) Sch. 9 para. 132 renumbered as Sch. 9 para. 132(1) by [S.I. 2024/356 reg. 4\(23\)\(a\)](#)
- Sch. 9 para. 125(1)(c) and word inserted by [S.I. 2024/356 reg. 4\(3\)\(b\)](#)
- Sch. 9 para. 125(3A) inserted by [S.I. 2024/356 reg. 4\(6\)](#)
- Sch. 9 para. 126(1)(c) inserted by [S.I. 2024/356 reg. 4\(9\)\(c\)](#)
- Sch. 9 para. 126(3A) inserted by [S.I. 2024/356 reg. 4\(10\)](#)
- Sch. 9 para. 127A and cross-heading inserted by [S.I. 2024/356 reg. 4\(12\)](#)
- Sch. 9 para. 128(6)(a)(zi) inserted by [S.I. 2024/356 reg. 4\(13\)](#)
- Sch. 9 para. 129(1)(c)(d) inserted by [S.I. 2024/356 reg. 4\(15\)\(b\)](#)
- Sch. 9 para. 129(2)(c) and word inserted by [S.I. 2024/356 reg. 4\(16\)\(b\)](#)
- Sch. 9 para. 130A and cross-heading inserted by [S.I. 2024/356 reg. 4\(21\)](#)
- Sch. 9 para. 132(2)-(5) inserted by [S.I. 2024/356 reg. 4\(23\)\(c\)](#)
- Sch. 9 para. 132A and cross-heading inserted by [S.I. 2024/356 reg. 4\(24\)](#)
- Sch. 9 para. 132(1) words inserted by [S.I. 2024/356 reg. 4\(23\)\(b\)](#)