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APAC (84) Letter

Ref : 3CSP/3/83

Via e-mail

4 October 2007

Dear Pensions Administration Manager

APAC (84) : Time limits for paying Pension Commencement Lump Sums

This letter updates guidance given in APAC 69 letter.

APAC (69) dated 6 February told you that HMRC was drafting the 2007 Finance Bill to amend the Finance Act 2004 so that a Pension Commencement Lump Sum may be paid within 12 months of the member becoming entitled to the related pension without becoming an unauthorised payment, rather than the three months as stated in the 2004 Act, and that the change would be retrospective to 6 April 2006.

The Finance Act 2007 received Royal Assent on 19 July. As forecast, it included the retrospective change to the 2004 Act extending the three months period to 12 months. This means that, where a lump sum is paid less than 12 months after the pension was paid, the lump sum, including refunds of widows' pension scheme contributions (WPS refunds), is an authorised payment under the Finance Act. Therefore, you should no longer be offering the option of taking the lump sum in full with a 40% tax charge or a reduced lump sum with the remainder inversely commuted to pension for those whose lump sums or WPS refunds are paid more than three, but less than 12, months after the pension was first put into payment.

Where Capita Hartshead has given the option to those where the gap in payment was between three and 12 months, and the members have taken the lump sum or WPS refund in full, Capita Hartshead is writing to tell them that their refund or lump sum will not be subject to 40% tax as previously advised. If you have given anyone a similar option and they have taken the lump sum in full, you will need to tell them the good news that the 40% tax charge will no longer apply.

We are not asking you to revisit the cases where the member took a smaller lump sum and opted to commute the remainder. These people would have been treated under the law as it stood at the time and it would not be possible to unscramble the benefits that have already been paid.



Yours sincerely

BOB CLARKE