Executive summary
Changes to the rules for UK pension schemes that were announced in the 2014 UK budget will take effect from 6 April 2015. The changes give flexibility to pension scheme members on when and how to take benefits from certain UK pension schemes. Related changes will have implications for the tax treatment of benefits paid from non-UK pension schemes where contributions have benefitted from UK tax relief.

Employers should ensure that employees who participate in pension schemes that receive UK tax relief understand how the new rules will apply to their pension benefits.

Key changes to UK schemes
Until 6 April 2015, UK registered pension scheme rules only permit:
- Up to 25% of the fund to be taken as a lump sum; and
- The balance to be taken as income (normally for life)

After 6 April 2015, these restrictions will no longer apply in respect of defined contribution UK schemes (schemes where a fund of money is built up over time). This will allow members of such schemes to withdraw the whole fund in one lump sum if they wish.

Impact on non-UK schemes
Under the current rules, a withdrawal from a non-UK pension scheme which has benefitted from UK tax relief for contributions may result in a what is known as “an unauthorised payment charge” in the UK, if the member is resident in the UK or has been in any of the five previous UK tax years.

Such charges apply where a scheme makes a payment which is not allowed for a UK registered scheme, such as payments before the UK minimum age of 55, or where more than 25% of the funds are paid out as a lump sum. The charge is levied at a rate of up to 55% and applies to the amount of the contributions which received UK tax relief.

From 6 April 2015, the unauthorised payment changes affect non defined contribution UK schemes in two key ways:
- Lump sum payments after the member reaches age 55 will no longer be subject to the 55% unauthorised payment charge; and
- All payments after the member reaches
It will continue to be the case that for payments made to non-UK residents the scope of these unauthorised payment charges is capped at the amount of funds that have received UK tax relief; and these UK charges will not apply to payments made to non-residents who have not been UK resident in any of the five previous UK tax years.

In some circumstances, current UK tax rules can apply other tax charges to payments from non UK pension schemes even where the member has been non-resident for more than five tax years. Therefore, it is important that specific advice is obtained where necessary.

**Claiming UK tax relief on contributions to non-UK schemes**

UK tax relief for pension contributions to non-UK schemes is dependent on whether the scheme meets certain requirements. If the scheme is not based in the European Economic Area and is not based in a country which has a body that regulates pensions, then one of the requirements is that at least 70% of the UK tax relieved funds will be used to provide an income for life.

HMRC is considering amending these requirements to bring them more in line with the new rules for UK schemes however the amendments have not yet been made. Some change in the future is therefore likely. The Government’s commentary on the law states that this is a “temporary measure so that the legislation to replace the 70% rule can be targeted more precisely to ensure that the principles behind allowing transfer to be made free of UK tax can continue to operate as Parliament intended.”

**Next steps**

Individuals seeking to take funds out of non-UK pension schemes which have received UK tax relief, or in respect of which contributions or accruals might otherwise be within the scope of UK tax, will need to carefully consider whether and to what extent UK tax charges might apply.

Employers should ensure that employees who participate in pension schemes that receive UK tax relief understand how the new rules will apply to their pension benefits.

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**Monica Joseph**
Tel: +44 (0)207 783 0835
Email: mjoseph@uk.ey.com

**Eleanor Meredith**
Tel: +44 (0)1179 812088
Email: emeredith@uk.ey.com

**Financial Services**
**Nick Yassukovich**
Tel: +44 (0)20 7951 9517
Email: nyassukovich@uk.ey.com

**John Mackay**
Tel: +44 (0)20 7951 2779
Email: jmackay@uk.ey.com