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Association of Consulting Actuaries Limited · First Floor (129) · 40 Gracechurch Street · London · EC3V 0BT
Tel: +44 (0)20 3102 6761 · Email: acahelp@aca.org.uk · Web: www.aca.org.uk

12 April 2022

GMP Equalisation projects: interest on arrears payment of pension - income tax treatment

HMRC have given guidance (in particular https://www.gov.uk/government/publications/guaranteed-minimum-pension-gmp-equalisation-newsletter-february-2020/guaranteed-minimum-pension-gmp-equalisation-newsletter-february-2020) on various pensions tax considerations when equalising benefits for the effects of inequalities in Guaranteed Minimum Pension in light of the Lloyds case.

Many schemes are duly proceeding in particular with equalising benefits for **members in receipt of pension** and identifying the arrears of pensions due, with interest for late payment.

We are aware that there has been some confusion on the tax treatment of the **interest** element, in terms of tax due and the responsibilities (if any) of schemes to deduct that at source.
(This message is NOT about tax treatment of the arrears themselves which is covered explicitly in the HMRC guidance note referred to above.)

We understand that HMRC may include clarification in a future newsletter (possibly end May); but, on general principles, have already confirmed the following to the industry members of the GMPe Working Group (members of ACA sit on this Group), and HMRC have agreed that we can share this.

For the purpose of GMP equalisation

- (For pensions tax purposes) the interest payment should be treated as interest payment made in respect of a late payment of pension instalments.
- The interest is likely to be “yearly interest” for tax purposes, and an obligation to withhold income tax is **unlikely** to arise under section 874 of Income Tax Act 2007, unless the payment falls under s874(1)(d) i.e. to a person whose usual place of abode is outside the UK.
- In terms of the Personal Savings Allowance (PSA): the interest element should be covered by the PSA, although this is primarily a point for individuals and their particular circumstances.

We hope this is useful to ACA members in managing/advising on payments and communications with scheme members.

Karen Goldschmidt
Chair, ACA Pensions Tax Committee