

FYI[®] Alert

For Your Information[®]

Initial HMRC guidance on GMP conversion

Ever since the original Lloyds judgment on GMP equalisation in 2018, HMRC has appeared reluctant to produce guidance on the tax implications of GMP conversion.

While it is still finalising its approach, HMRC has now published some initial guidance that highlights the issues it has identified so far.

In this issue: [Background](#) | [Members who are yet to retire](#) | [Recently retired pensioners](#) | [Other pensioners](#) | [Buck comment](#)

Background

GMP conversion has been an option for trustees since 2009 but has only been used in a small number of cases. The Lloyds judgment significantly raised the profile of GMP conversion, with it being one of the options set out to equalise pension benefits for the effects of GMPs.

HMRC's initial guidance acknowledges that GMP conversion is a complicated area and it is still working through the issues. However, it wanted to provide confirmation of particular aspects of pensions tax law. It covers the expected tax position on specific issues for various groups of members.

Reassuringly, HMRC has reached many of the same conclusions as the Pensions Administration Standards Association (PASA) did in its guidance last year on GMP conversion.

The HMRC guidance is based upon two assumptions:

1. Trustees are using GMP conversion on the basis that the value of adjustment made to benefits is on an actuarial equivalence basis.
2. Where the conversion is removing the inequalities arising from GMPs, it is on the basis of seeking to achieve both equality of present value on the conversion date and equality of benefit payments thereafter between men and women for post-17 May 1990 benefits.

Volume 2022

Issue 09

8 April 2022

Authors

John Dunkley

Paul Butfield

Members who are yet to retire

Annual allowance assessments are likely to be required in the tax year of conversion and going forward until retirement. This is because GMP conversion may cause the loss of a member's deferred member carve-out (DMCO) which results in a pension input amount calculation for the tax year, as well as for subsequent tax years.

HMRC has said that they need to consider this matter further to determine the appropriate outcome and treatment, and where any change to legislation is required.

However, the guidance separately confirms that members who left pensionable service before 6 April 2006, and have stayed outside the annual allowance since then, will remain unaffected provided the post-conversion benefit is actuarially equivalent to the pre-conversion benefit.

For deferred members, GMP conversion before benefits are crystallised (for example, in a bulk exercise) could lead to the loss of fixed protection. Therefore, trustees looking to use GMP conversion for deferred members should consider the tax implications carefully.

Pensioner members

HMRC confirms that there are no annual allowance impacts for pensioners, as GMP conversion would not constitute benefit accrual for annual allowance purposes. Further, for retirements within the tax year, any DMCO that applied in the tax year ahead of a member's retirement would continue to apply after GMP conversion.

GMP conversion (any time after retirement) will not lead to the loss of any fixed protection, provided all the benefits in the arrangement had been crystallised.

The assessment of whether an increase in pension from GMP conversion triggers an additional lifetime allowance assessment under 'BCE3' (a benefit crystallisation event where a scheme pension is increased by more than a permitted margin) is based on the pre-conversion pension after adjustment for the application of a dual record equalisation method for the past to calculate any arrears due and any restatement of past lifetime allowance usage.

Buck comment

While the tax law implications of GMP conversion are unquestionably complex, it is frustrating that HMRC has taken so long to provide this guidance. That said, it is very welcome and in keeping with the other guidance on GMP equalisation published by HMRC, seeks to take a pragmatic approach to the issues for trustees and members where possible.

Although many of the conclusions reached are similar to those reached by PASA last year, trustees will no doubt take comfort that these statements have come directly from HMRC. The additional clarity, for pensioners in particular, may provide comfort to trustees that preferred the conversion option but were worried about the tax implications.

There are certainly areas of the GMP conversion legislation which could benefit from clarification and simplification. A Private Members' Bill currently going through Parliament (with DWP support) seeks to resolve this and will hopefully lead to further conversion guidance in due course. (HMRC has

committed to continuing to work through the remaining issues and to provide further updates, although no timescale is provided for this.)

As ever, trustees are strongly recommended to take legal advice before taking any decisions on GMP conversion.

Produced by the Knowledge Resource Centre

The Knowledge Resource Centre is responsible for national multi-practice compliance consulting, analysis and publications, government relations, research, surveys, training, and knowledge management. For more information, please contact your consultant or call us on 0800 066 5433.

This publication is for information only and does not constitute legal advice; consult with legal, tax and other advisors before applying this information to your specific situation.

Buck is a trading name in the UK for Buck Consultants Limited (registered number 1615055), Buck Consultants (Administration & Investment) Limited (registered number 1034719), and Buck Consultants (Healthcare) Limited (registered number 172919), which are private limited liability companies registered in England and Wales. All have their registered office at 20 Wood Street, London EC2V 7AF. Buck Consultants (Administration & Investment) Limited and Buck Consultants (Healthcare) Limited are authorised and regulated by the Financial Conduct Authority.

© 2022 Buck Consultants Limited. All rights reserved.