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Flexi-Access Drawdown

Tech-Bites

A look at the features and rules around flexi-access drawdown

Key points

Flexi-access drawdown allows individuals to take their entire fund with no limits on the amounts or frequency of payments.

Existing capped drawdown plans can continue, however no new capped drawdown plans can be taken out other than to house existing capped drawdown monies.

Taking an income from a flexi-access drawdown is classed as a trigger event for the Money Purchase Annual Allowance (MPAA).

Phasing drawdown can be a tax efficient way to take an income, where if only tax-free cash (TFC) is being taken, there is no risk of triggering the MPAA.

What is flexi-access drawdown?

Flexi-access drawdown replaced both capped and flexible drawdown from 5 April 2015, although capped drawdown plans are still available to house existing capped drawdown monies

How does flexi-access drawdown work?

Flexi-access drawdown:

- Allows individuals to take income directly from their crystallised funds
- Can normally be taken on an ad hoc basis, as a regular income or both
- Where funds are being crystallised there is normally up to 25% tax-free cash available from the newly crystallised funds

How are income withdrawals taxed?

- Any income taken from flexi-access drawdown is taxed at the individual's marginal rates of income tax

Professional adviser use only

What is capped drawdown?

Individuals in capped drawdown can:

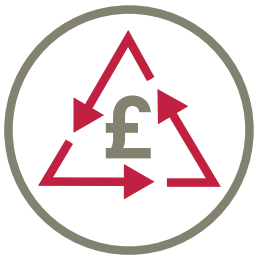
- maintain their existing capped drawdown
- convert their capped drawdown to flexi-access drawdown
- it may also be possible to designate new funds to an existing capped drawdown

Capped drawdown features include:

- Flexibility around frequency and level of income (although limited to a cap of 150% of GAD*)
- The MPAA does not apply to any income taken (unless it exceeds the max GAD income limits)

* 150% of the basis amount that a relevant annuity with no guarantee could provide based on data provided by Government Actuarial Department (GAD)

How does recycling income from flexi-access drawdown work?



Not to be confused with recycling of tax-free cash (TFC), recycling income is where an individual:

- Takes their tax-free cash (TFC); and
- Recycles their income (that is they crystallise funds into drawdown and withdraw the income and pay this back into their pension); and
- Generate further TFC by turning crystallised monies (in the form of drawdown income)back into uncrystallised monies (in the form of pension contributions)

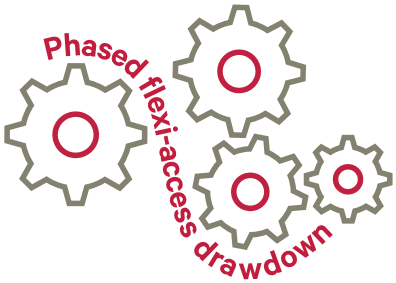
This can be tax neutral in terms of income tax for basic rate taxpayers, as the tax paid on the contribution equals the tax relief gained on the pension contribution, although this may not be the case for higher and additional rate taxpayers. In addition, further tax-free cash will be generated on the uncrystallised funds generated by the pension contributions.

The individual will also still need relevant earnings to cover the size of the recycled contributions if greater than £3,600.

Typical clients might include those that:

- Need cash but not income
- Are not making contributions in excess of the MPAA
- Are looking to generate future TFC

What is phased flexi-access drawdown?



Phasing tax-free cash and controlling the level of taxable income withdrawal allows individuals to manage their income requirements in the most tax efficient way.

For example:

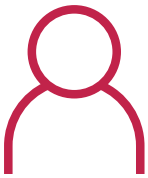
- Taking regular instalments of tax-free cash only, without taking any income from the corresponding monies crystallised into drawdown
- Taking a mix of regular instalments of tax-free cash and enough taxable income to meet a client's needs (for example up to the personal allowance or to make up for reduced hours in employment)

What about the MPAA?

Taking any income from a flexi-access drawdown is classed as a trigger event (at the date the income is withdrawn), which means the money purchase annual allowance or (MPAA as it is known), would apply from the date of that trigger event.

One exception is taking flexi-access drawdown from a disqualifying credit as a result of a pension sharing order. A disqualifying credit is a pension credit resulting from previously crystallised funds that become uncrystallised again in the hands of the ex-spouse. No tax-free cash can be taken from these funds, when they are re-crystallised and any income is not classed as a trigger event.

Example – Dominic



Dominic

- Dominic has a pension pot of £300,000 and the table below looks at how phasing can offer up some options on how to take an income, if £1,000 was crystallised each month.

Dominic has a £300,000 uncrystallised pension pot and is crystallising £1,000 each month

Using only the tax-free cash	Using the tax-free cash and some income	Using tax-free cash and all the income
Scenario 1 – Dominic requires £250 per month tax-free	**Scenario 2 – Dominic requires £400 per month net (assuming he's a 40% taxpayer)**	**Scenario 3 – Dominic requires £700 per month net (assuming 40% taxpayer)**
Tax-free cash • £250 tax-free cash (used to provide a tax-free income – i.e. 25% of £1,000)	**Tax-free cash** • £250 tax-free cash (used to provide a tax-free income – i.e. 25% of £1,000)	**Tax-free cash** • £250 tax-free cash (used to provide a tax-free income – i.e. 25% of £1,000)
Taxable income • No income taken • £750 remains deferred in flexi-access drawdown • £299,000 uncrystallised	**Taxable income** • Net income of £150 • (£250 net of 40% tax) • £500 remains in flexi-access drawdown • £299,000 uncrystallised	**Taxable income** • Net income of £450 • (£750 net of 40% tax) • None remaining in flexi-access drawdown • £299,000 uncrystallised
Dominic • Receives **tax-free income of £250 a month**	**Dominic** • Receives **tax-efficient income of £400 a month**	**Dominic** • Receives **tax-efficient income of £700 a month**

Planning considerations

Retirement income planning can help clients:

- Looking to maintain an existing capped drawdown plan, so as not to trigger the MPAA
- That are looking for tax efficient income, by phasing regular instalments of tax-free cash and controlling the level of taxable income
- That need tax-free cash but not income, generate additional income by recycling drawdown income back into their pension in the form of a pension contribution.

This document is based on Canada Life's understandings of applicable legislation, law and current HM Revenue & Customs practice as at October 2023. It is provided solely for general consideration. The information regarding taxation is based on our understanding of current legislation, which may be altered and depends upon the individual financial circumstances of the investor. We recommend that investors take their own professional tax advice.

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