Small lump sum payments

Tech-Bites

A look at small lump sum payments, the rules and the tax treatment.

Key Points

Small lump sum payments can be taken from either occupational or public service schemes or from non-occupational schemes, for example personal pensions.

For occupational schemes there are no limits on the number of small lump payments that can be taken.
For non-occupational schemes, individuals can take up to three separate arrangements (up to £10,000 per arrangement) as a small lump sum payment

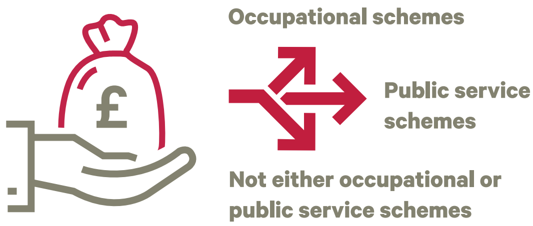
For occupational schemes - the rules apply at the scheme level but for non-occupational schemes, it is at the arrangement level.

Small lump sum payments are taxed in the same way as triviality payments

What type of schemes can a small lump sum payment be made from?

Small lump sum payments can be paid from:

- Occupational schemes
- Public service schemes
- Schemes that are not either occupational or public service schemes



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What criteria apply to occupational and public service schemes?

These are some of the conditions for a small lump sum payment:

- The member must be age 55 or over (or meet ill health or protected pension age requirements)
- It must not exceed £10,000 (applied to actual payment)
- It must extinguish the member's entitlement to benefits under that scheme (and any related scheme if it doesn't meet the conditions as a larger pension scheme)
- The member cannot be a controlling director or connected to a controlling director
- There can be no recognised transfer out from the scheme (or related scheme) within the previous three years
- There is no limit on the number of small lump sum payments that can be made.

What criteria apply to non-occupational schemes?

To meet the conditions for a small lump sum payment:

- The member must be age 55 or over (or meet ill health or protected pension age requirements)
- It must not exceed £10,000 (applied to actual payment)
- It must extinguish the member's entitlement to benefits under that arrangement
- Must not exceed three payments in total

How does it work for non-occupational schemes?

The following criteria applies:

- Individuals can take up to three separate payments (of up to £10,000), where any investment growth between the request and the payment counts towards the limit.
- It is at arrangement level and not scheme level
- Arrangements can be merged, within the scheme, (subject to scheme rules) without affecting individuals with Enhanced or any of the Fixed Protections (2012, 2014 or 2016)
- New arrangements can be set up, within the scheme, (this may impact on certain types of transitional protection like those listed in the above point)
- It is not treated as a benefit crystallisation event and therefore no lifetime allowance test

How is a Small Lump Sum Payment taxed?

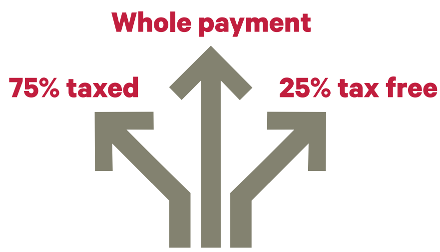
How it is taxed depends on whether the funds are crystallised or uncrystallised

From uncrystallised funds:

- 25% tax-free
- 75% taxed at marginal rates of income tax (treated as pension income)

From crystallised funds (a pension in payment):

- Whole payment taxed at marginal rates of income tax



Example – Duncan (non-occupational scheme)

- Is 55 years old
- Has a personal pension plan worth £27,000
- Has no other pension plans or any transitional protection in place
- Wants to take his plan under the small lump sum payment rules

Before

Arrangement

£27,000

Personal pension plan

After

Arrangement 1	Arrangement 2	Arrangement 3
£9,000	£9,000	£9,000

Personal pension plan

- Duncan asks his provider to set up an additional two arrangements within his scheme
- The provider agrees and internally transfers £9,000 into each of these
- He now has three separate arrangements with £9,000 in each
- He now meets all the criteria to take these under the small lump sum payment rules

Result

- Duncan can now take all three payments under the small lump sum payment rules
- Each £9,000 arrangement will provide 25% tax-free cash of £2,250.
- Each net small lump sum payment would be (assuming basic rate taxpayer) £7,650.

Planning considerations

Understanding THE RULES

Pension planning can help clients:

- Identify potential lump sums and the rules around them
- In some cases, for non-occupational schemes, be able to merge arrangements or set up new arrangements and understand the implications where transitional protection is in place

ACCESSING small lump sum payments

Taking small lump sum payments can help clients:

- Access monies from their pension without triggering the Money Purchase Annual Allowance (MPAA)
- Access monies without having them tested against the lifetime allowance

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