

Uncrystallised Funds Pension Lump Sum (UFPLS)

Tech-Bites

A look at how uncrystallised Fund Pension Lump Sums (UFPLS), what are they, and the tax treatment.

Key Points



An Uncrystallised Funds Pension Lump Sum (or UFPLS) allows individuals to take lump sums from their uncrystallised pension funds.



An UFPLS is only available from uncrystallised funds originating from defined contribution (DC) schemes.



An UFPLS cannot be taken from funds which have:

- either primary or enhanced protection with protected lump sums rights over £375,000,
- a lifetime allowance enhancement factor; or
- benefits originating from a disqualifying credit.



UFPLSs are trigger events for the Money Purchase Annual Allowance (MPAA).

What is an UFPLS?

An uncrystallised funds pension lump sum or (UFPLS):

- For Allows individuals to take lump sums directly from their uncrystallised funds.



What criteria apply for an UFPLS?

To meet the conditions for an UFPLS:

- Individuals must be age 55 or over (or meet ill health or protected pension age requirements)
- The UFPLS must be from uncrystallised rights under a DC scheme
- If under age 75; must have lifetime allowance available
- If aged 75 or over; must have some lifetime allowance

It cannot be paid if:

- Member has primary or enhanced protection and protected lump sum rights over £375,000
- The benefits are from a disqualifying pension credit
- There's a lifetime allowance enhancement factor

What about the MPAA?

Taking an UFPLS is classed as a trigger event, which means the money purchase annual allowance would apply from the date of the first UFPLS payment.



How is an UFPLS taxed?

For individuals under age 75

UFPLS is within their remaining lifetime allowance:

- 25% of each lump sum payment is tax-free
- 75% of each payment is taxed at the individual's marginal rates of income tax
- This is paid as one net lump sum payment

UFPLS is greater than their remaining lifetime allowance:

- An UFPLS cannot be paid beyond the lifetime allowance
- Any excess above the lifetime allowance will be subject to a lifetime allowance charge at either;
 - 55% (if taken as a lump sum); or
 - 25% plus income tax at marginal rates (if taken as income)

For individuals over age 75

UFPLS is within their remaining lifetime allowance:

- 25% of each lump sum payment is tax-free
- 75% of each payment is taxed at the individual's marginal rates of income tax
- This is paid as one net lump sum payment

UFPLS is greater than their remaining lifetime allowance:

- 25% of that part of the lump sum payment within the remaining lifetime allowance is tax-free
- The remainder of the lump sum payment is taxed at the individual's marginal rates of income tax (both 75% of the remainder within the lifetime allowance and any excess amount)
- This is paid as one net lump sum payment

Example - Caroline



- Is 55 years old
- Has a personal pension plan worth £100,000
- She has no other pension benefits
- She has no other income

In 2020/21:

- Caroline takes an UFPLS of £50,000 from her personal pension
- 25% or £12,500 would be tax-free
- 75% or £37,500 would be taxable at her marginal rates
- She would receive a lump sum of these combined two elements
- She would also trigger the MPAA meaning Caroline could only contribute up to £4,000 per tax year to a Money Purchase pension scheme
- She still has £50,000 in her pension which remains uncrystallised



Caroline's UFPLS payment would be taxed at her marginal rates, however, in reality, if this was her first payment it would probably be taxed under the emergency tax code. This would result in the net payment being lower than anticipated although she would be able to reclaim back any over payment of tax.

Tax payable on a £50,000 UFPLS payment				
Tax bands/rates	UFPLS (marginal rate tax bands)	Estimated tax paid	UFPLS (Emergency Tax)	Estimated tax paid
Tax-free amount	£12,500 is payable tax-free, as 25% of the UFPLS is payable tax-free			
Taxable element	£37,500 is taxable at Caroline's marginal rates of income tax			
Personal Allowance @0%	£12,500	None	£1,041.67	None
Basic rate tax @20%	£25,000	£5,000	£3,125.00	£625.00
Higher rate tax @40%	N/A	N/A	£9,375.00	£3,750.00
Additional rate tax @45%	N/A	N/A	£23,958.33	£10,781.25
Total Net UFPLS	£45,000	£5,000	£34,843.75	£15,156.25
Difference in tax payable is £10,156.25 which can be claimed back				

Planning considerations

Accessing pension savings using UFPLS

Taking an UFPLS can help clients:

- Make simple tax efficient withdrawals from uncrystallised pots
- Looking for a simpler and potentially cheaper alternative to income drawdown
- Access part of their fund without moving income drawdown

This document is based on Canada Life's understanding of applicable UK tax legislation and current HM Revenue & Custom's practice, as at March 2020 and could be subject to change in the future. It is provided for professional advisers only. Any recommendations are the adviser's sole responsibility.



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