Start

Is the required withdrawal less than £30,000 ?

No

Even if over £30k is required. Small Lump Sums should be considered for the first £30k of withdrawal

Yes

Small Lump Sum (Small Pots)

Small lump sum payment can be made from any arrangement, irrespective of the individual's overall pension's worth – if:

- age 55 (this was reduced from age 60 on April 2015) or earlier if in ill-health
- each payment does not exceed £10,000 at the time it is paid to the client
- payment extinguishes all member benefit entitlement under the arrangement for personal pension, and scheme for Occupational
- payments can be made from two/three separate registered pension schemes or from the same scheme where the payments are made from two/three different arrangements under that scheme.
- In respect of non-occupational pensions (Personal Pensions etc.) only, the maximum of 3 small pot payments is not exceeded (unlimited number of small pots allowed from separate Occupational Pension schemes)

Small pots do not trigger the money purchase annual allowance (MPAA).

Do you want to take the whole pension fund as a lump sum?

Yes

No

Taxation Tolerance -Is client happy to pay marginal tax on 75% of any withdrawal ? This will be dependant on client tax position.

Yes

No

Is a lump sum and/or income required, or income only?

Lump sum, or lump sum and income?

Income only

Uncrystallised Fund Pension Lump Sum (UFPLS)

Up to 25% of withdrawal tax free*
75% of withdrawal taxed at marginal rate*

*Tax free amount may be lower where the member has insufficient LSA/ LSDBA available

Payment may be subject to emergency tax.

The payment of a UFPLS will trigger the MPAA and as such limit future DC contributions to £10,000 without MPAA charge being applied.

Flexi-access Drawdown (FAD)

Tax-free income can be provided from any available Pension Commencement Lump Sum –(Usually 25% of the uncrystallised fund). Three times the value of the PCLS withdrawal needs to be designated to Drawdown and can be used to provide taxable income (taxed at nominal rate), as required.

Any remaining uncrystallised funds can provide further PCLS/ drawdown designation, to provide additional tax free PCLS/ flexible income as required.

Initial payment may be subject to emergency tax.

Accessing PCLS on its own is not a trigger event and as such the standard or tapered Annual Allowance will still apply - but drawing taxable income will trigger MPAA and limit future DC contributions.

Is the lump sum /income required more than, or less than 25% of the uncrystallised fund?

Less than

More than

Flexi-access Drawdown (FAD)

The lump sum / income required can be taken as a tax free PCLS – (Usually 25% of the uncrystallised fund). The remainder needs to be designated to Drawdown, which can be drawn as a taxable lump sum/ flexible income (taxed at nominal rate), as required.

Remaining uncrystalised funds can provide further PCLS/drawdown designation, to provide further PCLS/flexible income as required.

Initial payment may be subject to emergency tax.

Accessing PCLS on its own is not a trigger event, and as such the Annual Allowance (and tapered Annual Allowance) will still apply - but drawing taxable income will trigger MPAA and limit future contributions.

Flexi-access Drawdown (FAD)

Usually 25% of the fund can be provided as a tax free lump sum (PCLS) – the balance of the fund will be designated to Drawdown which can be drawn as a taxable lump sum/income (taxed at nominal rate) to provide the balance of the lump sum required.

Initial payment may be subject to emergency tax.

Accessing PCLS on its own is not a trigger event, but drawing taxable income (as in this case) will trigger MPAA and as such future contributions will be limited to £10,000 pa if MPAA charge is to be avoided.

Withdrawal process

1/ How much does the client wish to withdraw? (say £10,000)

2/ Of the above figure how much can the client tolerate paying tax on?
Or conversely, how much of the withdrawal does the client need to be tax free?

We need to be very aware that any taxed element of a pension withdrawal will slot into the clients overall tax calculation just above any earned income but before savings, dividends, etc. As such the taking of a taxable pension withdrawal may push income sitting above earned/pensions income in the individual tax calculation into various tax traps- basic rate tax band, higher rate tax band, child benefit charge, Personal Allowance reduction, Additional rate tax band.
(In this example let's say the client is within £5000 of being a higher rate tax-payer and is prepared to tolerate paying basic rate tax on this amount)

3/ Unless the portion of the withdrawal that is required to be tax-free is exactly 25% of the overall withdrawal UFPLS is unlikely to be of assistance and flexi-drawdown will be the required path.
(in our example the tax-free element required is in excess of 25%)
Once the decision is made to go down the flexi-drawdown route, move on to stage 4.

4/ Work out the net amount to be received from the amount the client is happy to pay tax on (remembering to check if the client is subject to devolved taxation in Scotland and Wales
(in this example the client is not subject to devolved taxation and is £5,000 off being a higher rate tax payer and will received £4000 net from the gross taxable amount of £5000 - £5000 x 80%)
5/ Calculate the amount the client requires to be paid tax-free to achieve their target withdrawal amount
(in our example this would be £6000, to top up the net £4000 calculated in stage 4)

6/ Take the amount of tax-free withdrawal required and multiply it by 4, giving the amount that requires to be crystallised to generate sufficient PCLS to provide required tax-free element (in our example this would be £24,000).
The balance (in the example £18,000) will be designated to flexi-access drawdown, from which the client can draw the gross amount (£5,000) required to fund the taxable portion of the withdrawal.

The above process keeps the crystallisation down to the minimum required to fulfil clients requirements, leaving maximum uncrystallised fund to be used to generate future PCLS as required.