TECHNICAL NOTE
SMALL 'PERSONAL PENSION' POTS COMMUTATION

Scottish Widows Platform

For Professional Advisers only

An individual's personal pension arrangement can be fully commuted under the 'small pots' rules and be treated as an authorised payment, provided certain requirements are met. This enables those with small personal pension pots to take a lump sum rather than buy a potentially low value annuity.

Requirements

Payments under personal pensions using the 'small pots' rules may be made subject to the following requirements:

- The member is aged 55 or over (earlier if entitled to benefits due to ill-health or has a protected pension age),
- The payment does not exceed £10,000,
- The payment extinguishes the member's entitlement to benefits under the personal pension arrangement, and
- The number of personal pension pots that can be commuted in an individual's lifetime is three (therefore allowing up to £30,000 under these rules).

These payments can be made regardless of the value of the individual's total pension savings and can be made in addition to any occupational pension scheme small pot lump sums and trivial commutation lump sum payments the individual may have received.

Tax

Where uncrystallised benefit rights are being commuted 25% is normally paid tax-free and then the remainder will be taxable at the individual's marginal rate of income tax.

It is not possible to have more than 25% paid tax free under small pots commutation.

Where crystallised benefit rights are being commuted, all of the payment will be taxable at the individual's marginal rate of income tax.

Money Purchase Annual Allowance (MPAA)

The payment of a lump sum under the small pots commutation rules is not treated as flexibly accessing benefits and so does not trigger the MPAA.

Lifetime Allowance

The payment of a lump sum under the small pots commutation rules is not a benefit crystallisation event and so not tested against the Lifetime Allowance.

Key Point Summary

- Small pots commutation allows individuals to access small pension funds without triggering the MPAA and being tested against the Lifetime Allowance.
- 25% is tax-free from uncrystallised benefit rights with the remainder taxed at the individual's marginal rate of income tax.

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