ADVISER FACTSHEET

JAMES HAY PARTNERSHIP

The Benefits

Trivial Commutation Lump Sum

This factsheet is designed to give an overview of the rules applicable to the payment of a trivial commutation lump sum. Legislation allows, subject to certain conditions being met, for other small lump sums to be paid in respect of a member of a registered pension scheme. This factsheet covers the payment of a trivial commutation lump sum only.

FEATURES

- Conditions that have to be met for a trivial commutation lump sum
- What is the nominated date?
- What is the commutation period?
- Valuing pension rights for testing against the commutation limit
- Taxation of the trivial lump sum

For professional advisers only

Trivial Commutation Lump Sum

What follows is applicable for commutation periods commencing on or after 27 March 2014, irrespective of whether the nominated date is before, on or after 27 March 2014.

Conditions that have to be met for a trivial commutation lump sum

1. The member has not been paid a trivial commutation lump sum previously from any registered pension scheme, except where that payment was made within the commutation period. This excludes any trivial commutation that occurred before 6 April 2006.
2. On the nominated date for the commutation period, the total value of the member's entire pension rights, including pensions in payment, does not exceed £30,000.
3. The member must have available lifetime allowance in order for the lump sum payment to be made. Generally, this should not be a problem.
4. The lump sum paid is the total entitlement to benefits under the registered pension scheme from which the payment is being made.
5. The lump sum is paid when the member has reached the age of 60.
6. Any contributions made after the nominated date cannot be paid as part of the lump sum payment. It follows that, if a contribution is made to a scheme after the nominated date, none of the benefits under that scheme can be commuted as the payment would not comply with condition 4 above.

   However, any growth on pension rights held on the nominated date can be included in the payment.

What is the nominated date?

The nominated date is the date chosen by the member on which their pension rights will be valued for the purposes of Condition 2 above. This date must be either the start date of the commutation period or within a 3 month window ending on that start date. Consequently the member cannot choose a nominated date that is earlier than 3 months before their 60th birthday.

If the member fails to choose a nominated date, it will default to the first day of the commutation period.

What is the commutation period?

The commutation period lasts 12 months, during which time all trivial commutation lump sum payments have to be paid to the member. The start of the commutation period is the date of the first trivial commutation lump sum payment.

NB The member is only entitled to one commutation period in their lifetime.

Valuing pension rights for testing against the commutation limit

For defined contribution arrangements, uncrystallised funds are valued using their current market value.

Uncrystallised rights under a defined benefit arrangement are valued based on benefits accrued as at the nominated date:

20 x pension plus
lump sum (not provided by commutation)

Pensions in payment at 5 April 2006 are valued using the following formula:

(Maximum annual income as at 05/04/06 x 25)

For example, if a SIPP member had a maximum annual income of £680 at 5 April 2006, the calculation in the 2014/15 tax year would be:

£680 x 25 = £17,000

For funds that are crystallised on or after 6 April 2006 the value attributed for trivial commutation purposes is simply the amount that was crystallised at that time. The Finance (No. 2) Bill 2014 removed the requirement for these to be revalued in line with changes to the SLA.

Taxation of the trivial lump sum

Where crystallised rights are commuted they will be taxed as pension income when paid to the member.

Where uncrystallised rights are commuted, 25% will be paid tax-free and 75% will be taxed as pension income.

Important Information: This factsheet is issued by the James Hay Technical Support Unit for use by financial advisers in connection with products provided by James Hay Partnership. James Hay Partnership does not accept any liability if the information provided in this document is used for any other purpose. This factsheet is based on our understanding of current UK legislation and HMRC practice at the date this document was produced. The tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

James Hay Partnership is able to provide literature in alternative formats. The formats available are: Large Print (as recommended by RNIB), Braille, Audio Tape and PC Disk. If you would like to receive this document in an alternative format please contact us on 0845 850 4455. For the hard of hearing and / or speech impaired, please use the Typetalk service via 18001 0845 850 4455.

James Hay Partnership is the trading name of James Hay Insurance Company Limited (JHIC) (registered in Jersey number 77318); IPS Pensions Limited (IPS) (registered in England number 2601833); James Hay Administration Company Limited (JHAC) (registered in England number 4068398); James Hay Pension Trustees Limited (JHPT) (registered in England number 1435887); James Hay Wrap Managers Limited (JHWM) (registered in England number 4773695); James Hay Wrap Nominee Company Limited (JHWNC) (registered in England number 7259308); PAL Trustees Limited (PAL) (registered in England number 1666419); Santhouse Pensioneer Trustee Company Limited (SPTCL) (registered in England number 1670940); Sarum Trustees Limited (SarumTL) (registered in England number 1003681); Sealgrove Trustees Limited (STL) (registered in England number 1444964); The IPS Partnership Plc (IPS Plc) (registered in England number 1458445); Union Pension Trustees Limited (UPT) (registered in England number 2634371) and Union Pensions Trustees (London) Limited (UPTL) (registered in England number 1739546). JHIC has its registered office at 3rd Floor, 37 Esplanade, St Helier, Jersey, JE2 3QA. IPS, JHAC, JHPT, JHWM, JHWNC, SPTCL, SarumTL and IPS Plc have their registered office at Trinity House, Buckingway Business Park, Anderson Road, Swavesey, Cambs CB24 4UQ. PAL, STL, UPT and UPTL have their registered office at Dunn's House, St Paul's Road, Salisbury, SP2 7BF. JHIC is regulated by the Jersey Financial Services Commission and JHAC, JHWM, IPS and IPS Plc are authorised and regulated by the Financial Conduct Authority. The provision of Small Self Administered Schemes (SSAS) and trustee and/or administration services for SSAS are not regulated by the FCA. Therefore, IPS and IPS Plc are not regulated by the FCA in relation to these schemes or services.(01/14)