



STIRLING HOUSE A-DAY PREPARATION

Before 6th April 2006, the rules covering commutation on the grounds of triviality are changing. This means that if the total value of all your pension arrangements is small enough, you can take your benefits as a taxable lump sum payment.

Trivial Commutation: Key Facts

- You can only take your benefits in this way if you are aged between 60 and 75, and you have enough of your lifetime allowance available.
- You must take all 'trivial' lump sums within a 12 month period starting from the date the first 'trivial' payment is made to you. This is known as the 'commutation period';
- The total value of all your pension benefits, both those in payment and those yet to come into payment, must not be more than 10% of the Standard Lifetime Allowance (SLA) applicable at the 'nominated date'. Pensions already in payment are valued at £26 capital for every £1 per annum gross pension income;
- The 'nominated date' can be:
 - the first day of the commutation period~ or
 - a day selected by you which falls within the period of three months immediately before the start of the commutation period.
- For the tax year 2006/07, the SLA is £1.5 million, so the trivial pension limit will initially be £15,000.
- You must take all your pension benefits from the scheme; You cannot choose to take only part of your pension benefits from a scheme in this way. From the amount commuted, normally 25% can be taken as a tax-free lump sum. The balance is taxed as earned income.
- Any pensions in payment can also be commuted, but will be taxed in full as earned income. No tax-free lump sum can be taken from these benefits.
- There is a penalty of up to £3,000 for anyone who negligently or fraudulently obtains an unauthorised payment. This includes trivial commutation payments when the value of benefits from all schemes exceeds the 10% Standard Lifetime Allowance limit, It is important therefore to speak to your financial adviser before submitting a claim under the triviality rules.



Trivial Commutation: Questions & Answers

Q: I am currently receiving a state pension. How does this interact with any private pension arrangements that I have with regards to triviality?

A: State pension benefits are not included when determining if triviality' applies. Therefore, if you have a private pension that could be taken as a lump sum via trivial commutation, any benefits derived from the state pension can be disregarded.

Q: If I have small pensions with a combined value below £15,000, could I plan to phase the triviality payments over the allowable 12 month period?

A: The 12 month period has been introduced to allow adequate time for any administrative issues that could arise when taking your benefits from a number of different schemes. There is nothing to stop you planning to take the benefits at different times during the 12 month period.
Any benefits not taken in the 12 month period will result in the loss of the option of trivial commutation for that particular scheme.

TRIVIAL COMMUTATION: CASE STUDY 1

Joanne is aged 63, and a basic rate tax payer with a total pension fund of £15,000.

She can take 25% tax free cash of £3,750, which leaves a taxable fund of £11,250.

The basic rate of tax is 22% when she takes her benefits, meaning that she pays tax of £2,475, leaving a net lump sum of £8,775. Added to her tax-free cash, she has a total pension lump sum after tax of £12,525.

TRIVIAL COMMUTATION: CASE STUDY 2

Andrew has made no pension provision at all, and has earnings of £20,000 in the year he retires. Having spoken with his Stirling House IFA, he decides to make a payment of £11,700 to a Stakeholder Pension Plan before he retires. Basic rate tax relief is added at 22%, meaning that the amount invested is £15,000.

He then decides to take his pension benefits under the triviality rules. Like Joanne, he receives £3,750 tax free, with a further taxable amount of £11,250, giving him a total lump sum after tax of £12,525*.

Having done so, Andrew makes a once only net profit of £825 i.e. £12,525 less £11,700.

** Clients may get back less than the contribution paid into a pension plan. It is important they speak with their Stirling House IFA before making this type of investment.*

Important Information

Please note that the information provided in this document is based on Stirling House Financial Services' understanding of existing and proposed legislation and HMRC practice, all of which may be subject to change in the future. The information is based on the assumption that tax legislation is not changed.