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## PRACTICE NOTE

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PN 191/16

Date: 16 February 2016

### CHANGES TO LUMP SUM PAYMENTS FROM APPROVED PENSION SCHEMES

#### INTRODUCTION

As part of the 2016 Budget, a number of changes are being introduced regarding the payment of lump sums from those pension schemes that have been approved by the Assessor of Income Tax under either the Income Tax (Retirement Benefit Schemes) Act 1978 or the Income Tax Act 1989.

#### TRIVIAL COMMUTATION LUMP SUMS

From 6 April 2016 scheme administrators will be able to make trivial commutation payments of up to a total of £50,000 to a member who opts to “cash-in” a pension fund. In addition, from that date, the age from which a trivial commutation lump sum may be paid is reduced from 60 to 55 years’ of age (see [SD 2016/0029](#) Income Tax (Approved Pension Schemes) (Trivial Commutation Lump Sums) (Amendment) Regulations 2016).

The start of the 2016/17 tax year will also see a change to the tax treatment of these lump sum payments. From 6 April 2016, the payment of a lump sum will be treated as taxable income of the member in the year of assessment in which it is received. From the same date, for the purposes of the Income Tax (Instalment Payments) Act 1974, the lump sum payment will also be remuneration from an employer for tax purposes only, the scheme administrator being the employer. The scheme administrator will deduct ITIP from the payment in accordance with the tax code issued for the recipient by the Assessor (see articles 4 and 6 of [SD 2016/0024](#) Income Tax (Individuals) (Temporary Taxation) Order 2016).

#### FUND REMNANT LUMP SUMS

The maximum value of the lump sum remnant that can be paid following the withdrawal of funds from an approved scheme is equal to the commutation limit and therefore, from 6 April 2016, this will also increase to £50,000. The tax treatment of such a remnant remains unchanged, being treated as the payment of remuneration by an employer for the purposes of the Income Tax (Instalment Payments) Act 1974.

#### ADVICE

When considering whether to take a lump sum payment from a pension scheme, the member may wish

to seek professional advice.

**Nicola Guffogg**  
**Assessor of Income Tax**

This Practice Note is intended only as a general guide and must be read in conjunction with the appropriate legislation. It does not have any binding force and does not affect a person's right of appeal on points concerning their own liability to income tax.

Comments and suggestions for improvements of issued Practice Notes and suggestions for future Practice Notes are always welcome.