CURTIS BANKS

FACT SHEET

SMALL POT LUMP SUMS

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Definitions

What is a small pot lump sum?

There are many reasons why a person might end up with one or more small pensions; for example, from a short period of employment. There is a set of provisions, known as the 'small pot lump sum rules', which allow individuals to easily access such funds as a lump sum. In these cases, individuals don't need to go through the possible time and expense of accessing the funds through more traditional means.

What is meant by a 'payment under a scheme that is not an occupational or public service pension scheme'?

There are several types of small pot lump sums. However, for members of pension schemes such as SIPPs, this is the set of rules which is normally being referred to. For the remainder of this fact sheet, unless otherwise stated, this is the set of rules being described.

Rules

When can a person take a small pot lump sum?

The following conditions need to be met in order for someone to receive a small pot lump sum:

- The individual must have reached normal minimum pension age (currently 55), have a protected pension age, or meet the ill-health condition
- The payment cannot exceed £10,000
- The payment must represent all of the benefits under the pension arrangement (in other words, there will be nothing left for the individual to receive further benefits from)
- The individual cannot receive more than three payments in total under this set of rules.
- The individual must have available lump sum allowance (LSA) in order to take the small pot lump sum although this will not be deducted from the LSA.

How are small pot lump sums taxed?

If the small pot lump sum is being paid from uncrystallised funds (funds from which no benefits, such as tax free cash, have previously been taken), then 25% of the lump sum will be tax free, and 75% is taxed as income at the individual's marginal rate of income tax.

If the lump sum is being paid from crystallised funds (funds which are available to be paid as taxable income, with tax free cash already having been taken), then the whole amount will be taxed as income.

Are there other differences between small pot lump sums and other pension benefit options?

A small pot lump sum is not tested against the individual's lump sum allowance, however an individual must have available allowance to be able to take the proposed small pot lump sum.

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What other types of small pot lump sum rules are there?

The rules described in this fact sheet relate to a specific set of small pot lump sum rules, for non-occupational and non-public service schemes. There are separate sets of rules for:

- Occupational and public service schemes
- Funds left stranded after a transfer to a new pension scheme
- Funds left stranded after purchasing an annuity or a scheme pension
- Certain payments under the Financial Services Compensation Scheme (FSCS).

These rules are outside the scope of this fact sheet. You can find more information by searching “small pension payments” (including the quotation marks) on gov.uk.

We recommend that you speak to your pension provider and seek financial advice if you think you may be eligible to receive funds using one of these sets of rules.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA and HMRC regulation. It does not constitute any form of advice.

Contact Details

If you’d like to speak to us about anything on this fact sheet, please contact us on:
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