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FLUMPERS BEWARE!!!

Since the pension reforms were announced, there has been a lot of discussion within TISA's Retirement Technical Committee as to how flexible benefits will be taxed, in particular the treatment of ad-hoc 'uncrystallised funds pension lump sums' (or flumps).

HMRC's Newsletter 67 issued last month provided guidance on how firms should handle the tax element on any flump withdrawals made from 6th April 2015. It's fair to say that it's complicated even for the industry to get their heads around, so the chance of consumers understanding it is very unlikely.

The bottom line is that consumers could see the tax deducted from their ad-hoc flump payments in excess of their actual tax liability, leaving them to either reclaim it themselves or for it to be refunded by HMRC the following year.

Generally, unless the consumer has a P45 for the current tax year, any payments will be taxed using the emergency code. Of course, many consumers wanting to access their pension pot may do so whilst still in employment so won't have a P45.

To illustrate this point, let's look at one of the scenario's contained within HMRC's newsletter. (There are four other scenarios, available here.)

A consumer has a P45 from a previous tax year and is not in receipt of any pension currently. In this instance the scheme administrator should:

- operate Emergency code on a Month 1 basis
- report the flexibly accessed payment through RTI using data item 168, on or before the date the payment is made.

(Note: Where the fund has not been extinguished, HMRC will then issue a tax code to operate against future payments.)

This method will result in the taxable element, after any PCLS has been deducted, being annualised (multiplied by 12), with this figure assumed to be the amount of taxable income upon which tax will be calculated, using the emergency code.

It's important that firms and advisers clearly explain this to consumers to ensure that their expectations are managed. We can see people legitimately withdrawing a sum of money to use (for example) on a holiday of a lifetime, or to clear debts, only to discover that the amount they receive is not what they were expecting.

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