Emily McAlister <emilym@pensionpractitioner.com>

RE: pension fund address

1 message

Geoff Turner <geoff@werrington.me.uk> 23 December 2020 at 16:47
To: Emily McAlister <emilym@pensionpractitioner.com>

Emily

Not sure if I told you our new address, which is the Meadows, Askews Lane, Yaxley Peterborough PE7 3LA

Thanks

Geoff

Sent from Mail for Windows 10

From: Emily McAlister
Sent: 17 December 2020 11:34
To: Geoff Turner
Subject: Re: pension fund query

Hi Geoff,

No problem!

You too have a lovely Christmas.

Take care

Emily

On Thu, 17 Dec 2020 at 12:26, Geoff Turner <geoff@werrington.me.uk> wrote:

> Emily
>
> Thanks for this and I now understand the basic principles of drawdown and tax free entitlement.

We don't intend to draw any tax free sums until the summer time next year so I'll contact you nearer the time to get some accurate figures.

Thanks and have a good Christmas

Geoff

Sent from Mail for Windows 10

From: Emily McAlister
Sent: 16 December 2020 11:00
To: Geoff Turner
Subject: Re: pension fund query

Hi Geoff,

Apologies for the slight delay in getting back to you. All systems go here!

Tony in our Technical Team has looked at your email and has came back with the following:

- I am assuming that the £120,000 was taken out in the 2017-18 tax year over a number of payments - was this split equally between the two members (ie, £60k to Geoff and £60k to Jacqueline)?
- Similarly, was the £103,900 taken out in the 2018-19 tax year, and, again, was this split equally between the two members?
- And, finally, was the drawdown amount of £74,500 split equally between the two members?

Once I have confirmation of the above, I can reply properly but in the meantime, I can give some examples of workings: If we assume that the fund value was £1,500,000, there is only one member in the scheme, no lifetime allowance issues, and that no contributions or pension transfers have been received. £480,000 was crystallised (£120,000 to provide the 25% tax-free lump sum, the other £360,000 is allocated as drawdown). So, the fund is now split as follows:

Member - total value : £1,380,000 (£1,500,000 minus the tax-free lump sum)

Member - crystallised split - £360,000, or (£360,000 / £1,380,000 =) 26.087% of the fund

Member - uncrystallised split - £1,020,000, or (£1,020,000 / £1,380,000 =) 73.913% of the fund

From this point, all investment income (ie rent, etc) is allocated to the crystallised and uncrystallised portions in line with these percentages (basically, since 26.087% of the fund is now crystallised, 26.087% of the assets are deemed to have been crystallised, and so 26.087% of the income derived from those assets is allocated to those crystallised funds). It also means that there is only a further £1,020,000 available to crystallise (ie £255,000 as a tax-free lump sum).

To keep things simple, let's assume that there has been no growth in the fund whatsoever, and no drawdown taken, prior to the second round of crystallisations (ie, the fund is still worth £1,380,000). £415,600 was crystallised (£103,900 to provide the tax-free lump sum, and the remaining £311,700 is allocated to the drawdown fund). So, the fund is now split as follows:

Member - total value : £1,276,100 (£1,380,000 minus the tax-free lump sum)

Member - crystallised split - £671,700 (£360,000 existing drawdown fund plus £311,700), or (£671,700 / £1,276,100 =) 52.637% of the fund

Member - uncrystallised split - £604,400, or (£604,400 / £1,276,100 =) 47.363% of the fund

After this crystallisation, on £604,400 remains uncrystallised (ie £151,100 as a tax-free lump sum). It also means that even more investment income is allocated to the crystallised portion of the fund

Again, let's assume no growth etc in the fund. So, £74,500 was taken as drawdown (ie taxable income). This is taken from the crystallised allocation, meaning the new fund calculation would be :

Member - total value - £1,201,600 (£1,276,100 minus the drawdown)

Member - crystallised split - £597,200 (£671,700 minus the drawdown), or (£597,200 / £1,201,600 =) 49.700% of the fund

Member - uncrystallised split - £604,400, or (£604,400 / £1,201,600 =) 50.300% of the fund

As can be seen, the percentages have changed slightly in favour of the uncrystallised split (ie, slightly more investment income would now be allocated to the uncrystallised section).

This is grossly simplified (in the scheme's specific case, there are two members, I've ignored lifetime allowance issues completely (although, given the fund size and the fact that there are two members, this shouldn't be a factor anyway) and there is very definitely investment income to factor in), but I hope it demonstrates the principles. Basically, investment income is always split between crystallised and uncrystallised funds (ie, it is not deemed to be "new" funds and so allocated to the uncrystallised portion only), the amount that this is done so depends on rolling calculations of the crystallised and uncrystallised percentages at the time of receipt, and the amount available as tax-free cash also depends on the value of the uncrystallised portion at the time of crystallisation (ie, the amount available as tax-free cash is 25% of the uncrystallised portion at that time).

As said earlier, this, even in its simplified form, can get quite heavy. It will require a bit of work to be able to provide a more definitive answer as to the amount available, and, if any of this has raised further questions, please let me know.

Kind regards

Emily

On Fri, 11 Dec 2020 at 16:14, Geoff Turner <geoff@werrington.me.uk> wrote:

Emily

I just want to clarify my understanding of tax free drawings from our pension fund please.

According to our last statement of affairs at 5th April 2020 our fund was worth £1,392,867 and we have not drawn anything, either tax free or taxable since 5th April 2020. I understand that we need to have an up to date valuation of the fund before we draw any further tax free sums but I want to establish what the maximum further amount of tax free drawing is still available to us, subject to a valuation of course. Also, I want to know how that tax free entitlement isaffected by future taxable drawings and increases in the fund.

To date we have drawn £120,000 tax free in 2018, and £103,900 tax free in 2019 and £74,500 taxable in 2020.

Assuming that the valuation of the fund at 31st December 2020 is £1,450,000 my understanding is that we could draw a further £213,200, calculated as follows:

If no drawings had been made, the fund would be worth £1,450,000+£120,000+£103,900+£74,500, which is £1,748,400 and therefore total tax free drawings would be 25% of this, which is £437,100. We have already drawn £223,900 tax free and so there would be a further £213,200 available to us. Is this correct?

As far as the future is concerned, is 25% of future increases I the value of the fund available to us tax free?

I look forward to hearing from you.

All the best

Geoff Turner

Sent from Mail for Windows 10

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Kind Regards

Emily McAlister
Administrator

Please note our new administration and post processing centre:

Pension Practitioner

> Office 12
>
> Venture Wales Building
>
> Pentrebach
>
> Merthyr Tydfil
>
> CF48 4DR
>
> T: 0800 634 4862
> F: 020 8711 2522
>
> Pension Practitioner is a tradestyle of The Practitioners Partnership LP
> Registered Number: 00159
> Registered Office: 1st Floor, World Trade Centre, Baytree Road, Gibraltar GX11 1AA
>
>

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Kind Regards

Emily McAlister
Administrator

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