

Transitional Tax-Free Allowance Certificates

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Where you have pensions valued at or near £1,073,100 and have taken money from a pension pot earlier than 6 April 2024, it's important to check before taking any further money from your pensions to see if you should apply for a transitional tax-free amount certificate. In some circumstances, it can increase the amount of tax-free cash you're entitled to.

As you are no doubt aware the Lifetime Allowance (LTA) was abolished from 6 April 2024 and a new regime applies where only lump sum benefits are tested against the new pension allowances. Also, any benefits taken prior to 6 April 2024 are accounted for in these allowances.

So how is this done?

As a default, the standard rules to work out how much lump sum allowance has been used assumes you have received a tax-free lump sum of 25% of your used LTA (based on LTA of £1,073,100) at any crystallisations before 6 April 2024. For this reason, some people will lose out because they've taken less than this calculation assumes. If that's the case, there's an option to adopt a bespoke approach.

However, you cannot simply insist / request that the scheme takes the bespoke approach. There must be what is known as a transitional tax-free amount certificate (TTFAC), and you have to request a TTFAC. Otherwise, the scheme must follow the default approach.

Application process

Applications must be made:

- by you; or
- by your personal representative if the application is being made after death of the individual; and
- to a scheme you are a member of or was during your lifetime.

The application must include complete evidence so that we, as scheme administrator, can determine the value of all lump sums accessed before 6 April 2024.

If you want to apply to us, for a TTFAC, we will ask you to complete a form and you must provide the necessary evidence. We will then provide the TTFAC or refuse the application explaining why we can't do this. (Refusals will usually be because of a lack of credible evidence of the lump sums previously taken.)

Importantly applications must be made before any relevant benefit crystallisation events (RBCEs) occur. So, if you have already taken any benefits from any pension plan on or after 6 April 2024 it's no longer possible to apply for a TTFAC.

Who should apply?

There will be winners and losers from applying for a TTFAC. Unfortunately, we can't know who falls on which side of the fence until the relevant calculations are done. Some will be better off while others could be worse off.

For instance, those who accessed a reduced amount of tax-free lump sum may be better off applying for a TTFAC but this can depend on what other lump sums have also been taken. Meanwhile, if benefits were crystallised when the LTA was higher than £1,073,100 then you could be worse off by applying for a TTFAC. And, if a TTFAC is applied for, that's it, there's no going back - it's irreversible either before it is issued or after it has been received.

In practice, obtaining a certificate will require a reasonable amount of work, so a pertinent question may be 'Will there be any benefit from having a TTFAC?'

More information to help you on this can be found at <https://www.tax.service.gov.uk/guidance/Check-if-you-can-apply-for-a-Transitional-tax-free-amount-certificate/start>