

## Recycling Tax Free Cash 7/2/2006

The Revenue has issued a Guidance Note on recycling tax free cash. It runs to 10 pages and if you wish to read it, here it is: <http://www.hmrc.gov.uk/pensionschemes/recycling-guidance.htm>

Alternatively you might find the headlines useful:

1. Any tax free cash taken before A Day will not be caught, even if it is used to pay a contribution after A Day.
2. Conversely if the contribution is paid now, but funded by tfc taken after A Day it could be.
3. If the tfc in a 12 month period does not exceed £15,000 it can be recycled.
4. Even if the tfc does exceed £15k there will only be a tax charge if 20% of it is recycled, and then only if it increases contributions by 20% as well.
5. In any event it will only be taxed if the member envisaged paying the extra contribution when they took the cash.
6. The only way to get caught is through self assessment, or a particularly vigilant tax inspector spotting a big increase in contributions on a tax return.
7. Anyone who does get caught will face a 55% tax charge on the (previously tax-free) lump sum.

Comments:

Recycling is likely to be attractive to people who are currently paying 40% tax, but expect to pay 22% in retirement.

For people who are going to pay 40% in retirement, taking tax-free cash and grossing it up will not only lead to 40% tax on the emerging income (so no obvious advantage in the long term), it will also lock money into the pension fund and prevent it from being used for more tax efficient income (ISA's etc) and prevent it being passed to any beneficiary on death after 75. It will also result in 35% tax being payable on death before 75.

Anyone planning to recycle who can take tax free cash before April 6 should do so urgently. 40% taxpayers who are certain to be basic rate in retirement should plan to take up to £14,999 tax free cash p.a. for as long as they have unvested funds.

We should avoid advising clients to take more than £15k tfc to recycle as this could provide evidence that they "envisaged paying the extra contribution when they took the cash".