

What is lump sum 'recycling'?

HM Revenue & Customs (HMRC) allows contributions paid into registered pension schemes, and the investment return on a pension scheme's assets, to benefit from tax relief. The benefits paid out of such schemes can include a pension, which is taxable and a lump sum which is paid tax-free (up to a limit).

Recycling occurs where a pension scheme member intentionally uses some or all of the tax-free lump sum that they receive from a pension scheme to significantly increase their contributions to another (or the same) pension scheme, in order to gain further tax relief and entitlement to a tax-free lump sum. It doesn't matter if the tax-free lump sum is directly or indirectly reinvested into a pension scheme – this is still classed as recycling. An example of indirectly reinvesting the tax-free lump sum is to use your personal savings to significantly increase your contributions to a pension scheme, and replenish these savings with the tax-free lump sum.

Under HMRC rules, a tax-free lump sum must not be used in a way which exploits the generous tax relief available by 'recycling' the tax-free lump sum received. These rules apply to UK and non-UK residents, and to individuals making contributions into overseas pension schemes.

If HMRC finds that recycling has occurred, it will impose tax charges on the member and possibly the scheme too.

Members of the British Transport Police Force Superannuation Fund are reminded of the rules prohibiting recycling when they apply for retirement and when they ask to make a one-off additional voluntary contribution to BRASS or AVC Extra.

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