

Hanbury Wealth Product Guide

Transitional Tax-Free Amount Certificates (TTFAC)



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Changes from 6 April 2024

New pension limits were introduced on 6 April 2024, the Lump Sum Allowance (LSA) and the Lump Sum and Death Benefit Allowance (LSDBA), to replace the former Lifetime Allowance (LTA).

Any tax-free lump sums taken from pension plans on or after 6 April 2024 will use up one or both of the LSA and LSDBA and, once fully used, any further lump sums will be subject to income tax on the recipient.

Anyone who has already taken some benefits from a pension plan before 6 April 2024 has an amount deducted from their LSA and/or LSDBA in respect of the tax-free element of those benefits. This will either be an assumed amount of 25% of the previous amounts crystallised or, if a Transitional tax-free amount certificate (TTFAC) is obtained, the actual amount of tax-free lump sums taken before 6 April 2024.

What is the TTFAC?

The TTFAC is a certificate provided by a pension scheme to evidence that an individual is eligible for a lower deduction from their Lump Sum Allowance and Lump Sum and Death Benefit Allowance than would otherwise be the case, in respect of tax-free lump sums taken before 6 April 2024.

Where a TTFAC is to be applied for, the TTFAC must be issued before any relevant benefit crystallisation event (RBCE) (lump sum payment) takes place on or after 6 April 2024. If, for example, some tax-free cash (pension commencement lump sum or PCLS) is taken before the TTFAC has been granted, the option to apply for a TTFAC is lost and the standard calculation described below will apply.

What happens if a TTFAC isn't obtained?

Without a TTFAC, from 6 April 2024 the person is automatically classed as having used up LSA and LSDBA of 25% of the percentage of the LTA they have used before 6 April 2024. That percentage is then applied to their own LTA figure, so £1,073,100 for someone with no LTA protection, to give a monetary amount. That monetary amount is then deducted from their LSA and LSDBA and they have the remainder of their LSA/LSDBA to use for 'relevant BCEs' from 6 April 2024 onwards. Relevant BCEs only include lump sums from 6 April 2024, so PCLS/tax-free part of Uncrystallised Funds Pension Lump Sum/serious ill-health lump sums during lifetime and lump sum death benefits paid on death before age 75. If a person has enough LSA/LSDBA to cover the lump sum they want to take, the lump sum can be paid tax free – otherwise it is subject to income tax on the recipient.

If someone had crystallised 60% of the LTA before 6 April 2024 and had no LTA protection, then on 6 April 2024 they are classed as having already taken tax free lump sums of 25% of 60% of £1,073,100. A deduction of £160,965 will therefore be made from their LSA and LSDBA to leave them with the amounts shown below, to use for tax free lump sums from 6 April 2024 onwards:

$$\text{LSA} = \text{£}268,275 - \text{£}160,965 = \text{£}107,310$$

LSDBA = £1,073,100 - £160,965 = £912,135

So, who definitely doesn't need a TTFAC?

A Benefit Crystallisation Event (BCE) took place when any pension plans were accessed before 6 April 2024. A TTFAC is definitely not needed, and can't be applied for, if no BCEs have occurred before 6 April 2024 as the TTFAC is all about putting a value on tax free lump sums taken before 6 April 2024.

Those who have had no BCEs before 6 April 2024 start, on 6 April 2024, with their full LSA and LSDBA (£268,275 and £1,073,100 respectively for those with no LTA protection) and will have a deduction made from their LSA/LSDBA as applicable each time they, or their beneficiaries, take a tax-free lump sum on or after 6 April 2024. Once the relevant allowance is exhausted any further lump sums will be subject to income tax as pension income.

Who might need a TTFAC?

For those who have had one or more BCEs before 6 April 2024, the question is whether applying for a TTFAC will give a better outcome (more LSA and LSDBA to use from 6 April 2024), than sticking with the standard calculation described above.

Although each case needs to be assessed individually, there are some categories of individual where the standard calculation and the transitional calculation should be compared to see which gives the better result.

There are also some people who may end up with a worse result by applying for a TTFAC, in which case if they apply for and receive a TTFAC they are stuck with those results and can't simply choose to have the certificate cancelled and revert back to the standard calculation. Examples of when obtaining a TTFAC might give a worse outcome are noted below.

How do I apply for a TTFAC?

Although individuals can apply for the TTFAC from any pension scheme of which they are a member, the expectation is that individuals will apply to the scheme that they are taking their first relevant BCE (RBCE) from after 5 April 2024. It's understood however that in some cases it may be more appropriate for some individuals to apply to an alternative scheme – for instance if they have crystallised most of their pension benefits under another scheme, or if they took their 'less than maximum tax-free lump sums' from another scheme.

Individuals must apply for the TTFAC before their first RBCE because this is the first point at which pension schemes will need to establish what an individual's available allowances are. If an individual were able to apply at subsequent RBCEs, and their application is accepted, then they may have received the wrong tax treatment for lump sums or lump sum death benefit paid at any prior RBCE.

In terms of what evidence, the individual must provide, the onus is on members to provide the evidence of their actual tax-free amounts used prior to 6 April 2024. This evidence constitutes part of the application. The legislation does not prescribe exactly what constitutes complete evidence because this would overly restrict what a scheme can and cannot accept. Complete evidence must therefore always account for the total amount of lifetime allowance used in order that schemes can

determine what portion of those pension benefits were taken as tax-free lump sums. However, evidence will need to be considered on a case-by-case basis. HMRC guidance will provide examples of what might be considered due diligence and accepted as complete evidence, for instance, we would expect members to provide documentation such as financial records, bank statements, or BCE statements.

A person might benefit from obtaining a TTFAC if:

- They took no PCLS or less than 25% PCLS when crystallising a pension benefit
- They had a BCE tested against an LTA that was lower than the current standard LTA of £1,073,100. This would be the case in tax years 2016/17 to 2019/20 (unless they had a protected LTA of more than £1,073,100 in those tax years).
- They have been through the age 75 LTA tests. Anyone aged over 75 will have had BCEs at age 75 on any growth on their drawdown funds and on the full value of any uncrystallised funds.
- They have used 100% of LTA and have taken their full 25% PCLS entitlements but they still have uncrystallised funds that might potentially be used to pay a serious ill-health lump sum or lump sum death benefits. Applying for a TTFAC might increase their LSDBA (but not LSA).
- They have had several BCEs and one of those was a serious ill-health lump sum (SIHLS). The SIHLS only uses LSDBA, not LSA.
- Their DB pension was increased by more than the threshold annual rate and the permitted margin triggering a BCE 3. This can happen for example where a member has accepted a Pension Increase Exchange (PIE) offer where future pension increases are foregone in favour of an immediate one-off uplift to their pension. So, a BCE would take place but no PCLS would be paid.
- They have previously crystallised a disqualifying pension credit i.e., pension benefits received, via a pension sharing order, that came from funds that had already been crystallised. These are classed as uncrystallised funds for the recipient but when they crystallise them no PCLS can be paid.
- They have previously transferred a UK pension plan to a Qualifying Recognised Overseas Pension Scheme (QROPS).

Who should not apply for a TTFAC?

- Possibly someone who had a BCE in a tax year when the LTA was higher than their current LTA
- Possibly someone who took a scheme specific protected PCLS before 6 April 2024

Each individual's situation must always be assessed based on all benefits they took before 6 April 2024 in order to determine whether obtaining a TTFAC gives a better result overall. For example, the individual might have other plans where they took no PCLS or less than maximum PCLS.