Recycling of lump sums

If you use your tax-free lump sum from a pension to make a new or increased payment to a pension plan, this could be what HM Revenue & Customs (HMRC) call 'recycling' and be subject to a tax charge. This includes payments made by you, your employer or any third party.

The key things HMRC will consider are whether the increase was:

- **Pre-planned**

  What matters is your intention at the relevant time. HMRC need to prove that you had planned to use your tax-free lump sum to get more tax relief by making the new or increased payment.

  To do this, they will look at the evidence available to them. This can include looking at any increased payments to your pension plan made in the two tax years before and after you received your tax-free lump sum.

  Here's two basic examples:

	Situation	Proving it was pre-planned	Relevant time
Example 1	You took out a loan for £20,000 and paid this into your pension. A year later, you took a tax-free lump sum of £19,000 from your pension. You then paid the loan off.	A comment you made on your loan application, saying you would use your tax-free lump sum to pay off the loan.	Date the payment was made to your pension plan.
Example 2	You took a tax-free lump sum of £50,000 from your pension. A few months later, you paid a single payment of £20,000 into your pension.	A letter you sent to an adviser saying you wanted to reinvest your tax-free lump sum in your pension.	Date the tax-free lump sum was paid.

- **'Significant'**

  A significant increase is:

  – Over 30% of the tax-free lump sum you've taken, and

  – Under HMRC's rule of thumb, normally more than 30% of the payments being made to your pension.

  To work out the total increase in payments, HMRC can look at the two tax years before you took your tax-free lump sum, plus the year you received it and the two tax years after.

- **Made before or after you took a tax-free lump sum of more than £7,500**

  (This includes any other tax-free lump sum taken in the last 12 months.)

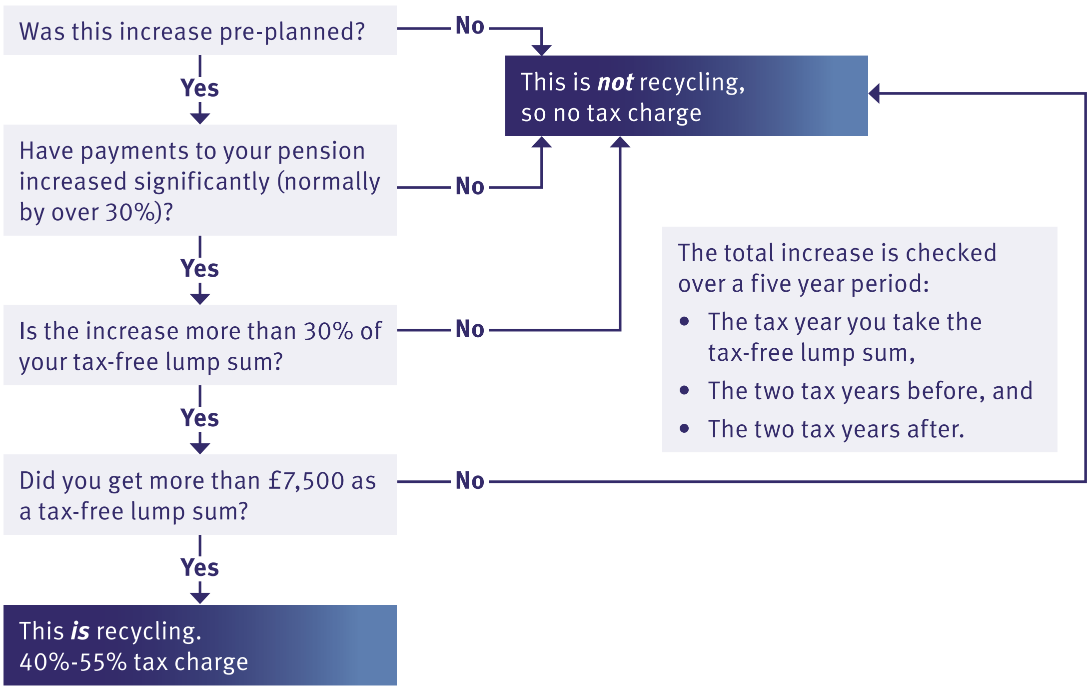
So, to be recycling, the increase has to pre-planned, significant and you need to have taken a tax-free lump sum greater than £7,500.

What if my payment is recycling?

You'll have to pay a tax charge of between 40%-55% of the tax-free lump sum taken.

Within 30 days of making your recycled payment, you must contact the pension scheme administrator that paid out your tax-free lump sum. They could also face a tax charge, normally of 15%, of the tax-free lump sum paid out to you.

Decision tree — is it recycling?



There are complications that could affect the tax charge if your pension plan is worth more than the Lifetime Allowance when you take your tax-free lump sum. For general information about the lifetime allowance see our guide 'Information about tax relief, limits and your pension' (GEN658).

Laws and tax rules may change in the future. The information here is based on our understanding in August 2021. Your personal circumstances also have an impact on tax treatment.