



What you need to know about
Pension Lump Sum Allowances



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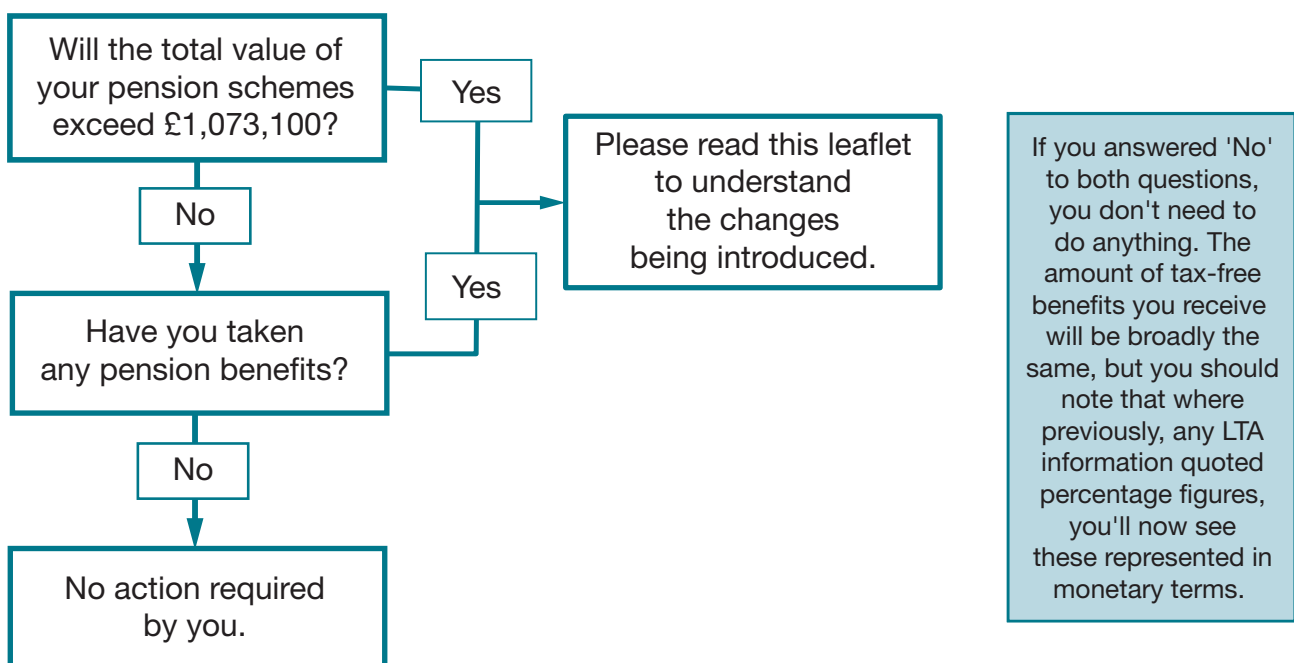
Abolition of the Lifetime Allowance

For pensions, the Lifetime Allowance (LTA) was the overall limit on tax privileged pension funds a member could accrue during their lifetime before a Lifetime Allowance tax charge applied. This was abolished in 2024/25.

From 6 April 2024 the existing Lifetime Allowance (LTA) has been replaced by two new allowances - the Lump Sum Allowance (LSA), and the Lump Sum and Death Benefit Allowance (LSDBA).

So what will the changes mean for you?

You may or may not be affected by these changes, so here are some questions that will help clarify whether or not you need to read this leaflet in full.



If you've answered 'Yes' to either of these questions

Whilst most people take maximum tax-free cash when drawing their benefits, not everyone has done so. If you've already taken pension benefits and the tax-free amount you received was less than the default amount of 25%, then you may be entitled to apply for a transitional tax-free amount certificate. An application could benefit you because your pension provider will otherwise assume that you took the maximum amount of 25% and will reduce your 'lump sum allowance' by more than needed, reducing the amount of tax-free cash lump sum available to you in the future.

If you think you're eligible for this, and your benefits may be over the default allowances, it's important you apply for this prior to the first time you take a lump sum benefit, after 6 April 2024. If you were eligible for a higher LTA, but have not yet applied for this, there's now a deadline of 5 April 2025 for applications to be made.

You'll find explanations on any highlighted terms at the end of this leaflet.

What was the Lifetime Allowance?

The LTA was a limit on the total amount of benefits that could be taken from your pension without having an additional tax charge applied. The standard LTA in the 2023/24 tax year was £1,073,100. Where this limit was exceeded, the amount of additional tax you had to pay was dependent on how you took your pension benefits. Until 6 April 2023, this tax charge was 55% for lump sums or 25% where benefits were taken as income.

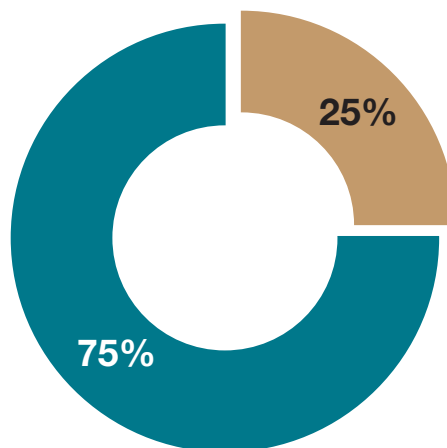
In the 2023/24 tax year, the additional LTA tax charge was effectively replaced with your marginal rate of income tax. The marginal rate of tax paid is “the percentage of tax paid on earnings for the next pound earned.” What that means is that if you earn £160,000 your marginal rate of tax is 45% because for the next pound that you earn, you will be paying tax at 45%.

What are the new allowances?

Lump Sum Allowance (LSA)	£268,275	LSA applies to the total amount of tax-free lump sums including the tax-free element of any Uncrystallised Funds Pension Lump Sums (UFPLS) .
Lump Sum and Death Benefit Allowance (LSDBA)	£1,073,100	LSDBA is a limit on the amount of lump sum death benefits and serious ill health lump sums that can be paid without tax.

The new Lump Sum Allowance is based on being able to take 25% of the old Lifetime Allowance as tax-free cash. Therefore, the amount of tax-free cash most people can draw won't have changed.

- Withdraw tax-free cash, typically 25%
- Draw the balance as a guaranteed income (annuity) or leave the rest in a pension as a drawdown fund to provide an income now or use it later



If you have an existing form of Lifetime Allowance protection, or have received a Lifetime Allowance enhancement on divorce, your allowances may be higher depending on the type of protection you hold.

There's also another new allowance, the Overseas Transfer Allowance (OTA). If you have an overseas pension or are considering transferring your pension benefits overseas, speak to your adviser for more information.

How do the new allowances work?

From 6 April 2024 only benefits taken as a tax-free lump sum (including the tax-free element of any regular withdrawals) will be tested against the new allowances. If either limit is exceeded, the excess is taxed just like any other pension income received.

Tax-free cash is normally 25% of the benefits being taken, but there's a cap of the lower of the two new allowances. The tax-free element of a pension withdrawal is commonly known as tax-free cash/lump sum or more formally as a Pension Commencement Lump Sum (PCLS).

The Lump Sum Death Benefit Allowance (LSDBA) is a combined allowance for both lifetime tax-free lump sums and tax-free death benefits. Consequently, the amount available for lump sum death benefits will be reduced by any tax-free cash amounts you have taken during your lifetime.

Lump Sum Allowance (LSA) in practice

Example 1: What happens if I have used up all my available 'lump sum allowance'?

Sam holds £300,000 in a Self-Invested Personal Pension (SIPP) and wants to draw £62,000 as a lump sum from her pension. Sam lives in England and is a higher rate (40%) taxpayer. She holds no Lifetime Allowance protections so her 'lump sum allowance' is £268,275.

Normally she would be able to draw 25% of the fund or £75,000 as tax-free cash, with the rest being allocated to a drawdown fund to provide future income. However, she has already used £218,275 of her 'lump sum allowance' with another pension scheme. Therefore, she has only an 'available' allowance of £50,000 (£268,275 minus £218,275). The maximum tax-free cash she can draw is therefore £50,000.

Sam therefore decides to draw the full £50,000 tax-free, allocating a further £150,000 into a drawdown fund. She must allocate at least £150,000 into drawdown to be able to take a £50,000 tax-free cash lump sum. This has allocated £200,000 of the £300,000 pot.

She also decides to draw a further £20,000 from the remaining £100,000 (leaving £80,000 untouched). As this lump sum is over her available allowance the SIPP provider will deduct income tax from the £20,000 'pension commencement excess lump sum' based on an emergency tax code. Higher rate tax of £8,000 (40%) is ultimately due on the £20,000 payment, leaving her £12,000 net once the tax position is adjusted.

Overall, she will therefore receive £62,000 as a lump sum in line with her needs.

Lump Sum and Death Benefit Allowance (LSDBA) in practice

A lump sum payment on death will usually be paid tax-free as long as:

- the member was under age 75
- the death grant is paid within 2 years of the death
- the member has not exceeded their LSDBA

		Beneficiary takes pension benefits as drawdown/income	Beneficiary takes pension benefits as a lump sum
Member dies before age 75	Up to Lump Sum and Death Benefit Allowance	No tax	No tax
	Excess	No tax	Income tax on excess
Member dies after age 75	Up to Lump Sum and Death Benefit Allowance	Income Tax on withdrawals	No test: Income Tax on everything
	Excess	Income Tax on withdrawals	No test: Income Tax on everything

Example 2: What happens if I have used up all my available ‘lump sum and death benefit allowance’?

Greg has a SIPP worth £1m and took £250,000 tax-free cash this year. If he was to die before age 75, the maximum tax-free lump sum death benefit which could be paid would be £873,100 (£1,073,100 less the £250,000 Lump Sum Allowance already taken). If the balance of Greg’s drawdown pot was greater than this at his death the excess lump sum will be taxed at income at his beneficiaries’ marginal rates of income tax. Where there is more than one beneficiary, the available allowance will be apportioned between them to determine how much tax each will have to pay.



Planning idea: In practice, however, you should be able to avoid a tax charge applying. If beneficiary drawdown was available under the contract and the excess over the allowance was drawn as taxable income not a lump sum, it could still be paid all at once and all be paid tax-free. This is because taxable income is NOT tested against the new Lump Sum Death Benefit Allowance, and it can still be paid tax-free if the original owner died prior to age 75. As such, the new rules make it extra important to check the death benefit options available under your pension and to ensure any potential beneficiaries are nominated by name in advance, as otherwise your beneficiaries may suffer an unnecessary tax charge.

Do these new allowances mean that I, (or my beneficiaries on my death), cannot take a lump sum once my allowances have been used up?

No. If one of your allowances is used up you can normally still take a lump sum; but that lump sum will be taxed. Similarly, on your death before age 75, if your 'lump sum and death benefit allowance' is all used up a lump sum can still normally be paid to a beneficiary, but that lump sum (or the part over your available allowance) would be taxed and not paid tax-free. Where taxable, any lump sum paid to you will be subject to income tax at your marginal tax rates for the tax year. Where paid on your death, in most cases your beneficiary will be charged income tax on the payment based on their marginal tax rates for that tax year.

Who is responsible for checking my allowances and accounting for any tax due?

With the 'lump sum allowance', it is the pension provider's responsibility to check your available allowance and deduct any tax due.

However, for the 'lump sum and death benefit allowance', it is the responsibility of the person dealing with your estate to check on your available allowance and report to HMRC where tax is due. Where tax is due, your personal representative dealing with your estate must declare to HMRC how much of the lump sum received is taxable (and on whom) then HMRC will assess everyone receiving any benefits separately. This forms part of the normal interaction process between your personal representatives and HMRC as part of dealing with the estate.

HMRC provide helpful guidance for personal representatives dealing with an estate about the 'lump sum and death benefit allowance' in the link [HERE](#).

If I've taken a drawdown pension will any lump sum paid on my death from my drawdown funds be tested?

It depends. In drawdown you have funds that remain invested after tax-free cash has been taken from which you withdraw a flexible income in retirement. If those drawdown funds were created before 6th April 2024, then they are exempt from inclusion within the new 'lump sum and death benefit allowance' (because any lifetime allowance they used up will already be factored in through the transitional rules explained in the next section).

If they were created after 5th April 2024 and you die under age 75 that lump sum will be tested against your available 'lump sum and death benefit allowance'.

If my beneficiary draws an income, will this be tested against any allowances?

No. From 6th April 2024 **only tax-free lump sums are subject to upper caps**. If you die under the age of 75 the income the beneficiary can draw will be tax-free in the UK in all cases.

If my beneficiary chooses to allocate funds to a drawdown fund, when they die will any lump sum paid on their death be tested against their 'lump sum and death benefit allowance'?

Yes, if they die under age 75 and the lump sum can be paid tax-free.

The only exception to this is where a member died before 6th April 2024 and the beneficiary was allocated those drawdown funds before 6th April 2024 also. Such funds are exempted from the new 'lump sum and death benefit allowance'.

What if I have more than one pension arrangement?

Your pension provider will assume 25% of your Lifetime Allowance was taken as a tax-free lump sum and will reduce your new limits (LSA & LSDBA) accordingly.

This default calculation applies regardless of the actual tax-free cash you received at the time you took benefits. Depending on the type of pension scheme you accessed and the value of the Lifetime Allowance which applied to you at the time, the actual amount of cash you received may have been higher or lower.

As mentioned at the start of the guide, there may be instances where you might be able to receive a higher amount of tax-free cash by applying for a transitional tax-free cash certificate, however you will need to apply for such a certificate before you draw any benefits under the new rules. You will need to have sufficient documentary evidence to prove all your previous pension and lump sum entitlements. You must make the request before you take any more lump sums after 5th April 2024.

If I used up some of my lifetime allowance before 6th April 2024, by how much will my available lump sum allowance be reduced by?

With the old lifetime allowance rules, you tracked your lifetime allowance usage in percentages (as for most people, the lifetime allowance fluctuated in value over time).

Under the default provisions, if you had used up 100% of your 'Lifetime Allowance' before 6th April 2024 then you will have no available 'lump sum allowances' going forward.

If you had used up some (but not all) of your old lifetime allowance, then (in most cases) you are treated as having used up the same percentage of your new 'lump sum allowance' as you had used up under the old lifetime allowance rules on 5th April 2024. This is basically 25% of the total lifetime allowance you were treated as having used up on 5th April 2024 in £s.

The same principle applies if you hold one of the types of fixed protection or individual protections in place before 6th April 2024.

Example 3:

Greg holds no protections. He had used up 45% of the standard Lifetime Allowance under various pension schemes (equivalent to £482,895 of the £1,073,100 standard lifetime allowance at that time).

From 6th April 2024 Greg is deemed to have already used up £120,723 (45%) of his new £268,275 'lump sum allowance', so he has 55%, or £147,552, left. £120,723 is 25% of £482,895 the full fund used.

In May 2025 Greg wants to start taking benefits from £400,000 of his remaining funds in his SIPP. He takes the maximum 25% (£100,000) as a tax-free cash sum. In total Greg has now used up £220,723 (£120,723 + £100,000) of his 'lump sum allowance' (with £47,552 left).

What else is different?

If your pension provider has previously been telling you the percentage of LTA you have used in their pension scheme and other pension schemes, they will now tell you the amount of the new allowances instead, so any figures will be shown in £, rather than %.

If you have drawn benefits previously or read our previous lifetime allowance guide, you may have come across the term Benefit Crystallisation Event (BCE) for any instance when your pension is tested against the LTA. Any time you draw a lump sum after the 6 April 2024 it will be tested against the new allowances and will be deemed a Relevant Benefit Crystallisation Event (RBCE).

Any money put into drawdown after 5 April 2024 will be put into a separate account, because any lump sum death benefits paid from drawdown accounts started on or after 6 April 2024, need to be tested against the new LSDBA. You should see the new account details on your regular statements. Existing amounts already in drawdown before 6 April 2024 will not be tested against the LSDBA.

There will no longer be a test for any unused pension benefits, or an assessment of the growth on drawdown funds, at age 75. Benefits will only be tested when you draw them and only the tax-free benefits will be tested against the new allowances, there are no limits on the taxable income you can draw.

Previously your tax-free cash entitlement was not transferable, i.e., if you didn't draw cash from one scheme you couldn't draw extra from another scheme instead. Under the new rules you may have the option to do this, but generally only if you have a very large pension fund (over £1,073,100).



Planning idea:

If you have a pension scheme with protected “scheme specific tax-free cash” then the order in which you take your benefits could be important. You only need to have £1 of Lump Sum Allowance remaining to take a full entitlement to scheme specific tax-free cash, so it may be in your interest to take scheme specific tax-free cash last, if you are likely to exceed your Lump Sum Allowance. This means planning the previous tax-free cash withdrawals such that you leave £1 of allowance available for use with remaining scheme specific tax-free cash. This may mean that you will take less than the maximum permissible from a scheme that does not have scheme specific tax-free cash.

Rules for those with LTA protections

As there is now no Lifetime Allowance (LTA) testing, the role of the various protection regimes is solely about increasing the amount of tax-free lump sums.

There is useful guidance on the HMRC website on the position with these new allowances for the different types of protection that can be accessed from the link [HERE](#). If you hold any form of protection, we would recommend that you speak to your financial adviser.

- **Fixed protection and Individual protection**

- o The Lump Sum Allowance is set to 25% of the individual's protected Lifetime Allowance.
- o The Lump Sum Death Benefit Allowance will be the same as the previous level of Lifetime Allowance protection.

Example 4:

If you hold individual protection 2014 with a protected Lifetime Allowance of £1.4 million on 5th April 2024. Your 'lump sum allowance' will therefore be £350,000 (25% of £1.4 million) and not £268,275.

The position for those with Enhanced or Primary Protections is complicated and as such you should seek advice.

Since April 2023 you can, in most instances, make new contributions into pensions without losing your existing protections.

Other protections may also apply if your pension arrangements have changed because of divorce or you have a pension which is able to pay a higher amount than standard tax-free cash, which is known as scheme specific tax-free cash protection.

The detailed rules are complex, and we would highly recommend you seek personalised advice before taking any decisions.

Glossary

Drawdown Pension explained

Drawdown is a way of getting pension income when you retire while allowing your pension fund to keep on growing. Instead of using all the money in your pension fund to buy an annuity, you leave your money invested and take a regular income direct from the fund.

Lifetime Allowance (LTA) explained

The Lifetime Allowance was the total value of pension benefits you could build up throughout your lifetime and generally receive up to 25% tax-free. This limit was £1,073,100 for most people. From 6 April 2024, the Lifetime Allowance was removed.

Lump Sum Allowance (LSA) explained

The Lump Sum Allowance applies to the total amount of tax-free lump sums including the tax-free element of any Uncrystallised Funds Pension Lump Sums (UFPLS).

Lump Sum Death Benefit Allowance (LSDBA) explained

The Lump Sum Death Benefit Allowance is a limit on the amount of lump sum death benefits and serious ill health lump sums that can be paid without tax.

Overseas Transfer Allowance (OTA) explained

This applies if you want to transfer your pension to an overseas pension scheme. This allowance is the same as your LSDBA and any amount in excess of this, is subject to the overseas transfers charge at 25%.

Transitional tax-free amount certificate explained

This certificate can be requested from any registered pension scheme that you're a member of and is used to prove that you're entitled to a lower reduction in your LSA and LSDBA than that provided for by the default calculation. Once provided it cannot be revoked.

Uncrystallised Funds Pension Lump Sum (UFPLS) explained

This refers to the option you have to take lump sums directly from a pension from age 55, (rising to 57 in 2028), without having to go into drawdown or buy an annuity. It means you can leave money in your pension pot and take lump sums from it when you want to - until your money runs out or you choose another option.

If you think you may be affected by any of the above changes, we recommend you speak to us as your financial adviser.

Whilst all reasonable steps have been taken to ensure that the information contained in this guide is accurate and complete at the date of publication, no warranty or guarantee is given and no liability is accepted for any loss incurred.

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