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Adviser factsheet

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Pension lump sum allowances

Introduction

New pension lump sum allowances were introduced on 6 April 2024 to replace the lifetime allowance, which was abolished. These allowances limit the tax-free lump sums individuals can take from their pension, the total combined tax-free lump sums paid during lifetime plus tax-free lump sums paid on death before age 75, and the amount which can be transferred to an overseas scheme tax-efficiently.

This factsheet sets out the definitions and rules of these key pension allowances.

Definitions

What are the current allowances?

As of 6 April 2024, the Government introduced three separate allowances. These are the:

Lump sum allowance (LSA): this is the standard amount of tax-free lump sums an individual may receive from all registered pension schemes during their lifetime without a tax penalty.

Lump sum and death benefit allowance (LSDBA): this is the standard limit on lump sums payable from all of an individual's registered pension schemes, including serious ill health lump sums and lump sum death benefits, without a potential tax penalty.

Overseas transfer allowance (OTA): this is a limit on transfers to a recognised overseas pension scheme (ROPS) before potential tax penalties.

What is a relevant BCE?

Your allowances are used up when certain actions or events take place. These are called relevant benefit crystallisation events, or RBCEs.

Rules

How much is the lump sum allowance (LSA)?

The standard lump sum allowance is currently £268,275. However, there are several forms of transitional protection which may give someone a higher lump sum allowance. Please see our separate protection factsheets for further information.

How much is the lump sum and death benefits allowance (LSDBA)?

The standard lump sum and death benefit allowance is currently £1,073,100. However, there are several forms of transitional protection which may give someone a higher lump sum and death benefit allowance. Please see our separate protection factsheets for further information.

How much is the overseas transfer allowance (OTA)?

The standard overseas transfer allowance is currently £1,073,100. However, there are several forms of transitional protection which may give someone a higher overseas transfer allowance. Please see our separate protection factsheets for further information.

How do the allowances work?

Each time a lump sum is paid from your pension as part of a RBCE, your allowances are reduced accordingly. The amount of the allowances you use at each event, and therefore the amounts you have left for future events, are expressed as monetary amounts.

What events count towards the lump sum allowance (LSA)?

- Pension commencement lump sum (PCLS).
- Non-taxable element of uncrystallised fund pension lump sum (UFPLS).

What events count towards the lump sum and death benefit allowance (LSDBA)?

- Pension commencement lump sum (PCLS).
- Non-taxable element of uncrystallised funds pension lump sum (UFPLS).
- Serious ill-health lump sum, if paid from uncrystallised funds and to an individual under age 75.
- Lump sum death benefits, where a member dies under age 75 and the claim is settled within 2 years and funds derived from uncrystallised funds or funds crystallised after 5 April 2024.

What events count towards the overseas transfer allowance (OTA)?

An overseas transfer that meets any of the exclusion requirements. The current overseas transfer exclusions requirements are:

- Member and receiving scheme in the same country.
- Receiving scheme is an occupational scheme.
- Receiving scheme set up by an international organisation.
- Receiving scheme is an overseas public service scheme.

What happens if I run out of the allowances?

If you have a RBCE which takes you over the LSA or LSDBA, or have a RBCE when you have neither allowance remaining then anything taken in excess of these allowances will be taxed at your marginal income tax rate.

You should also be aware that once you have used up your lump sum allowance, you can no longer take tax free cash (also known as PCLS). You will also no longer be able to access your pension benefits via an uncrystallised funds pension lump sum (UFPLS).

If the RBCE takes place in the event of your death then the amount of tax paid will depend on the type of beneficiary inheriting your pension. For more information, please refer to our death benefits factsheet.

If you have a RBCE which takes you over the OTA, then anything transferred in excess of the allowance will be subject to an overseas tax charge (OTC) of 25%.

What happens if I had previously used lifetime allowance?

There are transitional calculations that must be carried out to convert your previously used lifetime allowance into your utilised lump sum allowance, lump sum and death benefit allowance, and overseas transfer allowance amounts. The calculations differ based on the type of benefit crystallisation event that occurred.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA, and HMRC regulation. It does not constitute any form of advice.

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