For professional advisers only

Adviser factsheet

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Pension commencement lump sum (tax free cash)

Introduction

Pension commencement lump sum (PCLS), which is often known as 'tax free cash' or a 'tax free lump sum', is a tax free payment which most people can receive when they start accessing their pension benefits. It is normally 25% of the value of the pension benefits being accessed.

Uncrystallised is the term used to describe pension funds which have not yet been accessed. PCLS is only available from uncrystallised funds.

Crystallised funds are those which have been accessed. Normally 75% of the pension benefits being accessed become crystallised and the crystallised fund can be used to provide taxable income.

There is no further PCLS available from crystallised funds.

How does PCLS work?

When you decide to access some of your pension funds, you will normally have the choice to receive some of the funds as PCLS and to use the rest to provide taxable income.

For example, if you had an uncrystallised pension worth £100,000 and decided to go into drawdown, with normal PCLS entitlement you could choose to receive £25,000 upfront as a PCLS payment and then put £75,000 into drawdown. The £75,000 of crystallised funds would then be available to you to provide taxable income payments.

PCLS is counted towards the lump sum allowance (LSA). The LSA for the current tax year is £268,275 and limits the amount most people can take as a tax-free lump sum during their lifetime.

Do I have to take a PCLS?

You don't have to take PCLS if you don't want to. For example, if you wanted to purchase an annuity, you might decide that you would rather have the greater annuity value that you could purchase using your whole pension, rather than the annuity you could buy with 75% of your pension after taking a PCLS.

Do I have to take all of my PCLS at once?

You won't normally need to take all of your PCLS at once, in the same way that you don't normally have to access all of your pension benefits at once. You get the choice to take a PCLS each time you access some new pension benefits.

For example, let's say your pension was worth £400,000, so you could take up to £100,000 PCLS in total. If you decided to crystallise £200,000 of those benefits, you could take £50,000 PCLS at that point. You could take more PCLS when you decided to crystallise the remaining £200,000.

How much PCLS can I have?

From 6 April 2024, for those without PCLS protection, the total PCLS available is capped at £268,275 which is the current LSA.

There is a further restriction: the maximum PCLS you can receive when you crystallise benefits is 25% of the amount you're crystallising at that time.

What if my fund value increases after I've taken my PCLS?

Funds in drawdown are crystallised, so there's no more PCLS entitlement even if the fund value increases. Fund growth will, however, increase the amount which is available to you as taxable income.

I have a protected lifetime allowance. Can I have more PCLS?

If you have a scheme specific tax-free cash protection, you may be entitled to take a higher level of PCLS. For information about how the PCLS and LSA is impacted by scheme specific lump sum protections, please refer to the relevant protections factsheet.

Before 2006 I had a pension which let me have more than 25% PCLS. Does that still apply?

Under pre-2006 pension rules, some people had pensions which allowed them to take more than 25% of the fund value as PCLS. This enhanced PCLS related to the particular pension; an individual who had one may also have other pensions elsewhere with normal PCLS entitlement.

If you had one of these pensions and you are still with the same provider, you should still be able to take your higher PCLS amount. If you have since transferred to a new provider, you will need to have completed a 'block transfer' to keep your protected amount. We strongly recommend that you speak to an adviser if you've transferred your pension and are unsure whether this applies.

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