The Lump Sum Allowance
The Lump Sum and Death Benefit Allowance

The Lump Sum Allowance (LSA) and The Lump Sum Death Allowance (LSDA) replace the Lifetime Allowance (LTA) from 6 April 2024.

Previously, when retirement savings exceeded the LTA, there was a tax charge. This no longer applies. Instead there is a new limit on the Pension Commencement Lump Sums (PCLS) you can receive tax-free when taking your retirement savings. As well as this, there's a lifetime limit on tax-free lump sums paid in respect of an individual, in either life or death.

£268,275

The Lump Sum Allowance (LSA)

When you take one or more Pension Commencement Lump Sums (PCLS), you'll receive them tax-free as long as they don't add up to more than the LSA. If you receive more than the LSA, then tax will be payable at your marginal rate. Trivial commutation lump sums and small pot lump sums are excluded from this calculation.

How the LSA works - some simple examples...

Jordan is a member of three pension schemes. On retirement, Jordan takes the maximum PCLS offered by each of them. Together, the lump sums add up to £225,000. No tax is payable, as the three PCLS added together are lower than the LSA.

£100K £50K £75K

£230K £75K

Yaz is a member of two pension schemes and takes the maximum PCLS offered by one scheme plus a smaller PCLS from the other. Together, they exceed the LSA and this creates a Pension Commencement Excess Lump Sum (PCELS) of £36,725*. This will be taxed by HMRC at Yaz's marginal rate.

* Schemes will only pay a PCELS if their rules allow this

It doesn't make any difference if these PCLS are taken at the same time or years apart. The are all added together and tested against the LSA. This includes PCLS taken in the past.

What does this mean for your PCLS on retirement?

For most people, nothing will change. It'll still be possible to offer you the maximum PCLS, as long as you have LSA available. In the Rolls-Royce Retirement Savings Trust, the PCLS will remain up to 25% of the value of your retirement savings and for the UK Pension Fund, it's broadly 25% of the capital value of your retirement pension.

When you take retirement benefits, you can expect us (and any other pension scheme that you're a member of) to ask you for information that shows us how much LSA you have left to use.

£1,073,100

The Lump Sum and Death Benefit Allowance (LSDBA)

This is a limit on tax-free elements of lump sums that can be paid to or in respect of an individual, in either life or death. This includes lump sums that are exempt from the LSA limit shown above. As you can see, this one includes lump sum death benefits, so your Personal Representatives may be required pay tax to HMRC if all of your tax-free lump sums exceed this amount.

HMRC will check whether you have any remaining LSDBA when death benefits are paid to your personal representatives. If the death benefits exceed your LSDBA they will collect any tax due from your Estate. Your Estate will only be liable for tax if the excess benefits are paid to your beneficiaries as a lump sum - they could opt to use the money to buy an income instead, which is taxable at their marginal rate.

Lifetime Allowance protections

If you hold a valid protection of a Lifetime Allowance that's greater that £1,073,100, then your LSA and LSDBA will reflect this. Your LSA will be 25% of your protected Lifetime Allowance and your LSDBA will be equal to your protected Lifetime Allowance.

If the value of your pension savings were over £1 million on 5 April 2016 you have until 5 April 2025 to apply for Individual Protection 2016 (IP16), which will increase your LSA and LSDBA. Find out more about Lifetime Allowance protections and how to apply for IP16 at the HMRC website.

Transitional Tax-Free Amount Certificate (TTFAC)

From 6 April 2024, schemes are only required to test the amount of tax-free benefit you are taking (or have taken). Previously, it was the total value of the pension benefits you were accessing.

On retirement, if you've already taken pension benefits, you have to declare the percentage of the Lifetime Allowance used up when you did this. From 6 April 2024, the scheme you're retiring from will use a standard calculation that assumes you took 25% of the value of this Lifetime Allowance as tax-free cash. However, if you didn't, this will reduce your LSA and LSDBA unnecessarily.

Generally speaking, you may wish to consider applying for a TTFAC if you have have accessed pensions or retirement savings before 6 April 2024 and

- your PCLS from a defined contribution pension scheme was less than 25% of your fund value
- a Guaranteed Minimum Pension (GMP) in a defined benefit pension scheme restricted the maximum PCLS you could take

If you need a TTFAC, this should be requested from the first scheme that will pay you benefits after 6 April 2024, or from a scheme you are still a member of.

This retirement savings factsheet is based on our understanding of the Finance Act 2024 and HMRC pension schemes newsletters. The material contained within is provided for general information only and is not exhaustive. It does not constitute legal or professional tax advice. If in doubt, always speak to HMRC. If you require help with your tax and retirement savings planning we recommend that you seek advice from an independent financial advisor.

Money Helper

You can get further information about the LSA and the LSDBA at the Government's MoneyHelper website.