

# PENSION LUMP SUMS POST APRIL 2024: TRANSITIONAL RULES AND PROTECTIONS

APRIL 2025

The removal of the Lifetime Allowance from 6 April 2024 has, for many, simplified their pension choices. There are **no longer any tests applying to the level of pension income** taken. However, the **Lump Sum Allowance (LSA)** and the **Lump Sum and Death Benefits Allowance (LSDBA)** both apply to limit the level of tax-free lump sums which can be taken both during lifetime and on death.

**Those who have either taken some pension benefits before 6 April 2024, or who have Pension Protection in place, need to be aware of the transitional rules applying to their particular situation. This could give them the opportunity to take a higher tax-free lump sum amount in future.**

If you have already taken some form of pension benefits prior to 6 April 2024, you have a choice over how to calculate the way in which your previous lump sums use up your LSA and LSDBA. **An alternative calculation is available, which could potentially allow a higher level of tax-free cash to be taken in future - but only where the necessary certification is applied for before any further pension benefits are taken.** If you fall into this category, it is important you review your position before taking any action.

If you have previously applied for any form of protection from the Lifetime Allowance, this **Protection remains relevant and potentially gives you a higher personal LSA and LSDBA.** In all cases the legislation is new and may have quirks yet to be ironed out; we recommend discussing with your adviser before taking any action.

# SUMMARY TABLES

Standard Allowances	£
Lump Sum Allowance (LSA) <sup>1</sup>	£268,275
Lump Sum and Death Benefits Allowance (LSDBA) <sup>1</sup>	£1,073,100

1. Those with existing LTA protections will have their own protected amounts, see section below.

Allowance Reducers	LSA	LSDBA
<b>Post 05.04.24 RBCE <sup>1</sup></b>		
PCLS (tax-free cash): standard	£ amount taken	£ amount taken
PCLS: where scheme-specific tax-free cash protection applies	25% of crystallised fund	100% of crystallised fund
PCLS: stand-alone lump sums	25% of lump sum paid (100% if you have Enhanced or Primary protection)	100% of lump sum paid
UFPLS	£ amount of tax-free component	£ amount of tax-free component
Serious ill-health lump sums	-	£ amount paid
Authorised death benefit lump sums	-	£ amount paid
<b>Pre 05.04.24 BCEs (transitional rules)</b>		
Standard Calculation	25% of previous LTA usage	25% of previous LTA usage
Alternative Method	£ tax-free lump sum paid	£ tax-free lump sum paid

1. RBCE = Relevant Benefit Crystallisation Event, previously called a Benefit Crystallisation Event (BCE). Usually the point at which you decide to take a pension withdrawal.

# STANDARD RULES FROM 6 APRIL 2024

A brief reminder of what the Lump Sum Allowance (LSA) and Lump Sum Death Benefit Allowance (LSDBA) are, and what reduces them, before we dive into the special cases:

## TAX-FREE LUMP SUM DURING LIFETIME: LUMP SUM ALLOWANCE (LSA)

When you reach the point of taking some form of income from your pension, you can also choose to take a portion of the benefits as a tax-free cash lump sum (called Pension Commencement Lump Sum or PCLS). **The maximum PCLS you can take is the lower of the three amounts below.**

PCLS limited by the lower of:	
Applicable amount	25% of the pension fund being crystallised <sup>1</sup>
Available Lump Sum Allowance (LSA)	LSA less any 'relevant BCEs' (amounts already taken as tax-free lump sums)
Available Lump Sum and Death Benefit Allowance (LSDBA)	LSDBA less any 'relevant BCEs'. See death benefit section below <sup>2</sup>

1. Money purchase schemes only. If you have enhanced protection with protected tax-free cash, the applicable amount is the percentage on your certificate multiplied by the crystallisation amount.

2. In practice this may only reduce the PCLS available within the LSA limit, if a serious ill-health lump sum, stand-alone lump sum, or benefits from scheme specific PCLS protection, has already been taken.

### LSA Key Points:

- **The standard LSA is £268,275** unless you have existing LTA protection.
- **Your available LSA is reduced by relevant BCEs.** Usually, this is the amount of previous tax-free lump sums taken.
- **Your available LSA is not reduced by** the tax-free elements of trivial commutation lump sums, winding up lump sums, and small pots payments (although you need some allowance available in order to take these).

# STANDARD RULES FROM 6 APRIL 2024

## TAX-FREE LUMP SUM ON DEATH: LUMP SUM AND DEATH BENEFIT ALLOWANCE (LSDBA)

Tax on Withdrawals <sup>3</sup>	Pension Lump Sum	Pension Income
On death before age 75	Income tax-free within available <sup>1</sup> LSDBA Income tax on the excess	Income tax free <sup>2</sup>
On death after age 75	Income tax	Income tax

1. See above for amounts which reduce your available allowance.  
2. Assuming settled within 2 years of notification of death.  
3. From April 2027, it is proposed that IHT will also apply in all cases

### The tax treatment of pension death benefits varies according to whether you die before or after age 75:

- **Death after age 75:** all death benefits are subject to income tax, whether they are paid as income or lump sum.
- **Death before age 75:** any benefits paid as an income (e.g. via beneficiary’s annuity or drawdown) are tax-free. However, the limit on the level of lump sum death benefits which can be paid tax-free is given by the Lump Sum and Death Benefits Allowance (LSDBA).
- In addition to income tax, it is proposed that Inheritance Tax applies to all pension death benefits from April 2027. Further details are yet to be confirmed.

### LSDBA key points:

- **The standard LSDBA is £1,073,100** unless you have existing LTA protection.
- **Your available LSDBA is reduced by relevant BCEs.** These include amounts which reduce the LSA as above, but in addition are included any serious ill-health lump sums and lump sum death benefits paid.
- **Death benefits from crystallised rights already tested under the LTA** (e.g. death benefits from drawdown funds crystallised prior to 6 April 2024) are not tested against the LSDBA and so do not reduce your available LSDBA. It is also not reduced by charity and trivial commutation lump sum death benefits.

# LIFETIME ALLOWANCE PROTECTION

If you have existing Lifetime Allowance (LTA) pension protection, a higher LSA and LSDBA allowance may be available, as summarized in the table below.

LTA Protection	LSA	LSDBA
Standard	£268,275	£1,073,100
Enhanced Protection	Amount of PCLS entitlement on 5 April 2023 (if no protected PCLS this will be maximum £375,000)	Amount of uncrystallised funds on 5 April 2024
Primary Protection (without protected PCLS)	£375,000	£1,800,000 x primary protection factor
Fixed Protection 2012	£450,000	£1,800,000
Fixed Protection 2014	£375,000	£1,500,000
Fixed Protection 2016	£312,500	£1,250,000
Individual Protection 2014	25% of fund value at 5 April 2014 (maximum £375,000)	Fund value at 5 April 2014 (maximum £1.5m)
Individual Protection 2016	25% of fund value at 5 April 2016 (maximum £312,500)	Fund value at 5 April 2016 (maximum £1.25m)

# LIFETIME ALLOWANCE PROTECTION

## SINGLE CALCULATION EXCEPTIONS TO THE RULE

Here the maximum tax-free lump sum is based on a single rule (as below), rather than the lower of the applicable sum, available LSA and available LSDBA. The **order of taking benefits** where these single calculation policies exist should be carefully considered, as prior LSA usage won't reduce the level of potential PCLS available from these types of scheme.

	Maximum tax-free lump sum
Primary plus protected TFC	Tax-free lump sum on certificate x 1.2 LESS (for BCE before 6 April 2012) the PCLS paid x 1.8/standard LTA when paid LESS (for BCE after 5 April 2012) the amount of PCLS paid
Scheme specific protection <sup>1</sup>	Cash entitlement at 5 April 2006 x 1.2 PLUS [current fund – (A day fund x LSDBA/1.5m)/4]
Stand-alone lump sums	Amount that could have been paid tax-free on 5 April 2023 <sup>2</sup>

1. The LSDBA in the formula is the full (starting) amount, unadjusted for any benefits taken before 6 April 2024 or any tax-free lump sums received after 6 April 2024. . At least £1 LSA must be available. No LSDBA need be available but any PCLS paid in excess of the available LSDBA will be subject to income tax.
2. For those with primary or no protection, limited to available LSDBA. No LSA need be available.



# TRANSITIONAL ARRANGEMENTS: BENEFITS TAKEN BEFORE 6 APRIL 2024

For those who have started to take pension benefits already, transitional rules will apply to determine their starting point for the new rules as at 6 April 2024. These will effectively deduct tax free lump sums already taken, but of course, with some quirks.

## ALREADY USED 100% OF YOUR LTA?

If you have already used 100% of your LTA, then generally this is simple - you will have no LSA or LSDBA left.

However, if you have **ever taken less than 25% PCLS** (tax-free cash), **or PCLS when the standard LTA was lower than its end value of £1,073,100**, then you may be able to use the **alternative method** below to give you some available LSA or LSDBA.



# TRANSITIONAL ARRANGEMENTS: BENEFITS TAKEN BEFORE 6 APRIL 2024

## ONLY PARTIALLY USED YOUR LTA?

There will be two methods of calculating the reduction in your available LSA and LSDBA:

1. For most, the **standard calculation** will reduce the available LSA and LSDBA by 25% of the LTA used already. In addition, serious ill health and death lump sums will reduce the LSDBA by 100% of the LTA used.
  - o **For example:** if an individual without pension protection has used 80% of their LTA by 6 April 2024, their LSA and LSDBA will be reduced by £214,620 (80% x 25% x £1,073,100).
2. An **alternative method** can be used which reduces the available allowance by the actual £ amount taken as a tax-free lump sum.

This could be attractive, for example, where you decided not to take the full PCLS available (perhaps when taking a final salary pension or one with a high guaranteed annuity rate), or if you took PCLS when the LTA was lower than its end value of £1,073,100 (i.e. in any of the four years from 2016/17 to 2019/20).

To use the alternative method, you must provide a **transitional tax-free amount certificate** (TTFAC) stating the correct £ deduction. You can request this from a scheme administrator (usually of the scheme where you are now planning to take benefits). Scheme administrators will need to provide these within three months of a request. **On receipt of a TTFAC, you must notify all schemes of which you are a member within 90 days.**

The calculation will be made at the **first relevant benefit crystallisation event after 5 April 2024** (e.g. moving a pension into drawdown, taking an UFPLS or buying an annuity), and so **you will need to have obtained the certificate before this.**

- o **For example:** if you had previously taken DB pension using 80% of your (standard) LTA but took no tax free cash, the standard calculation would give you only £53,655 available LSA (20% x 25% x £1,073,100). The alternative calculation would give the full £268,275. Assuming you also have a large enough uncrystallised pension fund of £1,073,100 or more (or can make sufficient additional pension contributions to bring the fund to this level), this could potentially give you an additional £214,620 tax-free cash. This would otherwise be subject to income tax at your highest marginal rate. Assuming this is 45%, the alternative calculation could save you a huge £96,579.

## PRE A-DAY BENEFITS

Pre-commencement pensions (pensions which were already in payment at 05.04.06) had their LTA usage calculated based upon 25 x the pension in payment at the time of the first crystallisation event after 05.04.06. Where these have already been tested, the LSA and LSDBA will be reduced based on the standard calculation above. However, you will also be able to use the alternative method to show that no PCLS was taken, and hence not reduce your available LSA and LSDBA. It is currently unclear whether pre-commencement pensions where no LTA test ever occurred can use the alternative method. Please contact your adviser if you believe this applies to you.





**Important Information:** Our views are based upon our understanding of current legislation in England, unless stated otherwise. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances.

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