SIPP Member Fact Sheet

Lump sum allowances

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An overview of the new lump sum allowances

When you start accessing pension funds for the first time you are normally allowed to take up to 25% of the value of the uncrystallised funds you are accessing as a UK tax-free lump sum (with a few exceptions).

This is paid either as a stand-alone 'pension commencement lump sum' ('PCLS') or as part of a one-off taxed lump sum (called an 'uncrystallised funds pension lump sum', or 'UFPLS' for short).

In addition, if you die before reaching age 75 any funds remaining in your SIPP can normally be paid as a lump sum to your beneficiaries free of any UK tax.

From 6th April 2024 there are two new allowances that place an upper cap on the level of tax-free lump sums that can be paid from all pension schemes to you in your lifetime and on your death.

What are these new tax-free lump sum allowances?

These two new allowances on tax-free lump sums are called:

- the '**lump sum allowance**' (that places a lifetime cap on the amount of PCLS and tax-free part of any UFPLS you can be paid in your lifetime); and
- the '**lump sum and death benefit allowance**' (that places a lifetime cap on the amount of tax-free lump sums that can be paid both in your lifetime and on your death)

For most people, these two allowances will be £268,275 and £1,073,100 respectively.

The 'lump sum and death benefit allowance' will only normally be an issue in your lifetime if you become eligible for a tax-free lump sum before age 75 due to serious ill-health.

These two allowances are only likely to be an issue if you have significant levels of pension benefits.

Do these new allowances mean that I (or my beneficiaries on my death) cannot take a lump sum when 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.

Do these allowances impact on the pension income part of my benefits or on any lump sum I take that is taxed under the tax rules?

No.

The new allowances only catch lump sums, and only lump sums (or part of a lump sum) that would normally be paid tax-free in the UK.

So, for example, any funds that are moved to support a drawdown pension or used to buy an annuity (or the taxed part of an UFPLS) are not caught by the two new allowances.

Similarly, any lump sum paid on your death if you die having reached age 75 is not caught by the 'lump sum and death benefit allowance' (as they are taxed anyhow).

How do these new allowances interact with the old lifetime allowance rules in place before 6th April 2024?

Before 6th April 2024 there was a limit called the 'lifetime allowance' that tested the value of all your pensions when first accessed (not just lump sums) or if certain events happened and (up until 5th April 2023) imposed set tax charges if you went over.

These 'lifetime allowance' rules also impacted on the maximum level of tax-free cash you could take and, in some cases, the taxation of benefits on death.

On 6th April 2024 the 'lifetime allowance' was abolished. These two new lump sum allowances are designed to replace the effective cap on tax-free lump sums these previous 'lifetime allowance' rules imposed.

An overview of the new lump sum allowances (continued)

How do these new allowances interact with the old lifetime allowance rules in place before 6th April 2024? (continued)

Because of this there are certain provisions in the rules for these two new allowances to:

- carry forward certain protections that were in place for certain people before 6th April 2024; and
- treat part (or all) of both new lump sum allowances as being already used up where a person had used up some (or all) of their previous lifetime allowance before 6th April 2024.

These transitional rules reflect the fact that any 'lifetime allowance' you used up before 6th April 2024 caught the payment of benefits or certain events other than the payment of tax-free lump sums.

How these transitional rules work is explained in the last section of this factsheet.

Who is responsible for checking I have enough available allowances?

In your lifetime, we must check that you have enough of both allowances remaining before paying out any PCLS or UFPLS entitlement (or a serious ill-health lump sum if you qualify and are under age 75). We must deduct any income tax due on any lump sum paid where not covered by your available allowances.

We therefore will need to ask you some questions before paying a PCLS or UFPLS (or serious ill-health lump sum where you are under age 75).

You should keep records of any pension benefits you are paid, including the statements provided to you by any pension provider. It is important you answer our questions honestly and completely.

If we pay you a lump sum tax-free where it turns out part is taxable the liability to any income tax due will still be with you.

The 'lump sum and death benefit allowance' will only be an issue in your lifetime if you are drawing a lump sum under age 75 on grounds of serious ill-health (or have done in the past).

On your death, the responsibility on checking whether any lump sum is covered by your available 'lump sum and death benefit allowance' is with your personal representatives dealing with your estate. More on this later in a later section of this factsheet.

Do the allowances apply once I've reached my 75th birthday?

In your lifetime, yes. If you still hold uncrystallised funds then when you decide to draw benefits any PCLS or the tax-free part of any UFPLS will be subject to your remaining 'lump sum allowance'.

On your death, the 'lump sum and death benefit allowance' will not be relevant as any lump sum paid once you have reached your 75th birthday will be subject to UK tax by default.

Similarly, if you draw a serious ill-health lump sum this will automatically be taxed as you have reached age 75 and so not within your 'lump sum and death benefit allowance'.

The 'lump sum allowance'

What is the 'lump sum allowance'?

From 6th April 2024 there is a new allowance limiting how much you can draw in your lifetime from all pension schemes as tax-free PCLS or the tax-free part of an UFPLS.

This is called the 'lump sum allowance'.

This allowance catches any PCLS you become 'entitled' to and UFPLS paid to you from 6th April 2024 onwards (what HMRC call a 'relevant benefit crystallisation event').

The 'lump sum allowance' does not mean that you can have more than 25% of the uncrystallised funds you are accessing as a tax-free lump sum; but it will mean that if you use up all your allowance any lump sum paid will be taxed (and not paid tax-free) (see the example in a later question).

The 'lump sum allowance' does not catch the payment of small lump sums paid on grounds of triviality (part of which may be paid be tax-free).

The 'lump sum allowance' (continued)

How much will my 'lump sum allowance' be?

For most people, their 'lump sum allowance' will be £268,275.

The £268,275 figure has been set at 25% of the standard lifetime allowance figure in place on 5th April 2024, just before the 'lifetime allowance' was replaced (£1,073,100); this is on the basis that the new 'lump sum allowance' only catches lump sum payments and not funds used to buy or support a pension income.

There are no announced plans to index the £268,275 figure over time.

What if I held a 'lifetime allowance' protection before 6th April 2024?

Under the 'lifetime allowance' rules in place before 6th April 2024 the basic allowance (the 'standard lifetime allowance') changed over time. People meeting certain criteria could apply for specified types of protections from HM Revenue & Customs ('HMRC'), either when the 'lifetime allowance' was introduced on 6th April 2006 or later when the underlying figures were reduced or if certain events occurred.

If you applied to HMRC for one of these protections and still hold it then this will be reflected in the level of your new allowances. If that protection effectively increased the upper cap on tax-free lump sums under the old lifetime allowance rules your 'lump sum allowance' will be set higher to carry forward that level of existing protection.

Example 1:

If you hold fixed protection 2016 then you had a protected lifetime allowance of £1.25 million on 5th April 2024.

Your 'lump sum allowance' will therefore be £312,500 (25% of £1.25 million) and not £268,275.

Example 2:

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 rules are more complicated if you hold a protection other than the more commonly held fixed protections or individual protections, and some of the rarer protections may not increase your 'lump sum allowance' at all (for example, with most lifetime allowance enhancement factors outside primary protection).

These rules have been set to a level to preserve the effective level of protection you held on 5th April 2024 in the context of PCLS or UFPLS payments. But there are some quirks (particularly with enhanced protection).

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. Some of the information in this factsheet may apply differently if you hold enhanced protection or primary protection.

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

Once your 'lump sum allowance' (or, in rare cases, your 'lump sum and death benefit allowance') is all used up then no more tax-free PCLS or UFPLS can be paid to you.

If you still want to draw a lump sum, you can still do this; but any paid beyond that point will be taxed at your marginal income tax rates (in the same way pension income is). HMRC refer to this as a 'pension commencement excess lump sum'.

As the lump sum will be taxed you are allowed to take more than the normal 25%, but there must be some funds allocated to provide a pension in addition to the taxed lump sum.

We must put the lump sum through payroll, deducting income tax in the same way as occurs when we pay pension income (or as any employer deducts from employee's salary payments).

The rate of tax we deduct is determined by the tax code we are issued by HMRC. If we must use an emergency tax code we may deduct more tax than is due (meaning that you will need to make a reclaim from HMRC).

The amount of income tax due will depend on your other taxable income for the tax year and what tax rate bracket the payment falls within. The more taxed lump sum you draw, the more tax you are likely to pay. Please consider your marginal tax rate bands for the tax year; particularly if you are already in (or will move into) the higher rate tax bands.

The 'lump sum allowance' (continued)

What happens if I have used up all my available 'lump sum allowance'? (continued)

Example 3:

In February 2025 Samina holds £300,000 uncrystallised funds in a SIPP with us. She wants to crystallise the whole £300,000 with us taking a 25% PCLS (where permitted) with the rest being allocated to a drawdown fund to provide future income.

Samina holds no protections so her 'lump sum allowance' is £268,275.

But Samina had already used up £218,275 of her 'lump sum allowance' with another pension scheme. She therefore only has an 'available' allowance of £50,000 {£268,275 minus £218,275}

The maximum PCLS she can draw is therefore £50,000.

Samina decides to draw the full £50,000 PCLS, allocating a further £150,000 into a drawdown fund. {She must allocate at least £150,000 into drawdown fund to be able to take a £50,000 PCLS}

She also decides to draw a further fully taxed lump sum of £20,000 from the remaining £100,000 of uncrystallised funds (leaving £80,000 untouched).

We deduct income tax from the £20,000 'pension commencement excess lump sum' based on an emergency tax code and account for it to HMRC.

Samina lives in England and already has taxable income in the tax year of over £55,000 – higher rate tax of £8,000 (40%) is therefore ultimately due on the £20,000 payment.

How much of my 'lump sum allowance' will I have available?

If you've drawn a PCLS linked to a pension entitlement that crystallised after 5th April 2024 then this lump sum will reduce your available allowances £ for £.

If you've been paid an UFPLS after 5th April 2024 then the 25% tax-free part of that lump sum will reduce your available allowances £ for £.

Example 4:

If you accessed £40,000 in September 2024, drawing £10,000 as a PCLS, then you've used up £10,000 of your 'lump sum allowance' (and 'lump sum and death benefit allowance').

If you drew a £40,000 UFPLS instead then the tax-free element would similarly use up £10,000 of your two allowances.

If your 'lump sum allowance' was £268,275 you would then have £258,275 left (assuming none had been used up elsewhere).

However, if you used up any of your old 'lifetime allowance' before 6th April 2024 then this has an impact on both your available lump sum allowances.

Part of your allowances will be deemed to have been already used up based on your total lifetime allowance usage on 5th April 2024 (with some limited exceptions).

There is a default way this is calculated; but you do have a window to ask us or another scheme administrator to carry out a specific calculation based on the actual tax-free lump sums you received before 6th April 2024.

The last section of this factsheet explains how the conversion rules work with some examples.

If you have (had) other pensions that pension provider will have provided you with statements showing how much of your lump sum allowances you have used up under their scheme to help you keep track (or, if relevant, your old 'lifetime allowance' before 6th April 2024).

We may ask to see these statements before paying you a PCLS or UFPLS (or if you ask to draw a serious ill-health lump sum).

We will also provide you with a statement telling you how much of your allowances you have used up in total in your SIPP with us in £s.

The ‘lump sum and death benefit allowance’

What is the ‘lump sum and death benefit allowance’?

The ‘lump sum and death benefit allowance’ was introduced on 6th April 2024 and is a lifetime personal limit on the level of most lump sums that can be paid tax-free in the UK from all pension schemes, both:

- to you in your lifetime; and
- to your beneficiaries on your death (where you die before age 75).

From 6th April 2024, the payment of the following lump sums is subject to your available ‘lump sum and death benefit allowance’:

In your lifetime

- any PCLS or the tax-free part of any UFPLS that comes off your ‘lump sum allowance’; and
- any lump sum paid on grounds of serious ill-health from uncrystallised funds where you are under the age of 75 (which are nominally tax-free in the UK).

On your death

- (with some exceptions) any lump sum paid on your death before reaching age 75 (that would potentially be tax-free under the tax rules).

These are referred to as ‘relevant benefit crystallisation events’ (with a wider definition than with the ‘lump sum allowance’).

A lump sum paid on your death from funds that you have already accessed and are supporting a drawdown pension are also subject to your available ‘lump sum death benefit allowance’ where that lump sum could nominally be paid tax-free (so where you die under age 75). There are, however, some exemptions (please see later question).

How much will my ‘lump sum death benefit allowance’ be?

For most people, their ‘lump sum and death benefit allowance’ will be £1,073,100.

There are no announced plans to index the £1,073,100 figure over time.

If you hold one of the forms of lifetime allowance protections in place before 6th April 2024 then your ‘lump sum and death benefit allowance’ will normally be indexed up (in a similar way to the ‘lump sum allowance’).

Example 5:

If you hold fixed protection 2016 then you had a protected lifetime allowance of £1.25 million on 5th April 2024.

Your ‘lump sum and death benefit allowance’ will therefore be £1.25 million and not £1,073,100.

The rules are more complicated if you hold enhanced protection.

There is useful guidance on the HMRC website on what your ‘lump sum and death benefit allowance’ position will be for the different protection types that can be accessed from the link HERE.

What happens if all my available ‘lump sum and death benefit allowance’ is used up?

Once your ‘lump sum and death benefit allowance’ is all used up then any nominally tax-free lump sum paid that is not covered by your remaining available allowance will be subject to UK income tax (or part of that lump sum where you have some allowance left, but not enough).

This will in most cases only happen on your death (as in your lifetime it is likely that it will be your ‘lump sum allowance’ that will be used up first, not your ‘lump sum and death benefit allowance’).

Where that lump sum is paid on your death to a beneficiary who is an individual then UK income tax at that beneficiary’s marginal rates of income tax will be due on the lump sum (or the part of the lump sum not covered by your remaining available allowance) for the tax year of payment. {If the beneficiary lives outside the UK then the position may be different}.

The amount of income tax due will depend on their other taxable income for the tax year and what tax rate bracket (if any) the payment falls within.

The 'lump sum and death benefit allowance' (continued)

What happens if all my available 'lump sum and death benefit allowance' is used up? (continued)

Example 6:

Fred holds £1m in his SIPP with us; his only pension scheme.

He doesn't hold any protection so his 'lump sum and death benefit allowance' ('LSDBA') is £1,073,100

In May 2025 (after 5th April 2024) he takes benefits for the first time in any pension from his whole SIPP. We pay him a £250,000 PCLS and the remaining £750,000 is placed into a flexi-access drawdown fund.

The PCLS is within his available 'lump sum allowance' ('LSA'), so paid tax-free. He has used up £250,000 of both his LSA and LSDBA.

Fred dies aged 73 ten years later – at that point his flexi-access drawdown fund has grown to £900,000.

Fred has £823,100 left of his LSDBA on his death (£1,073,100 minus £250,000)

His sole beneficiary (his daughter, Mary) decides to take the £900,000 as a lump sum – as Fred was under age 75 (and the lump sum is being paid within two years of us being reasonably aware of his death) the lump sum is notionally tax-free.

But payment is subject to his available LSDBA.

As he only has £823,100 of allowance left only £823,100 of the £900,000 payment is tax-free. The remaining £76,900 is subject to income tax – this is charged on Mary based on marginal tax rates for the tax year, taking into account her other taxable earnings for the tax year.

Where you are paid a serious ill-health lump sum in your lifetime under age 75 then any part of that lump sum not covered by your remaining 'lump sum and death benefit allowance' will be taxed based on your marginal income tax rates for the tax year in question (in the same way as explained previously with the 'lump sum allowance').

Who is responsible for checking against my available 'lump sum and death benefit allowance' and accounting for any tax due?

Unlike with the 'lump sum allowance', it is not our responsibility to check whether any tax-free lump sum paid to a beneficiary following your death is within your available 'lump sum and death benefit allowance'. Nor is it our responsibility to deduct and account for any income tax due to HMRC.

Here it is the responsibility of the person dealing with your estate to check on your available 'lump sum and death benefit allowance' and report to HMRC where tax is due from the beneficiaries. 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 that individual 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.

We will of course provide your personal representative with information on how much of your allowance has been used up with us (in your lifetime – if any - and on your death) to help them.

Example 6 re-visited:

Fred only has £823,100 of 'lump sum and death benefit allowance' left on his death under age 75.

His beneficiary (Mary) is taking the remaining £900,000 in his SIPP as a lump sum with £76,900 of this payment subject to income tax at her marginal income tax rates for the tax year.

We pay Mary the full £900,000 without deducting tax.

The executor of Fred's estate must tell HMRC about the payment and that £76,900 is taxable on Mary.

HMRC will send Mary an assessment for the income tax due at the end of the tax year.

Where in your lifetime you are paid a lump sum on grounds of serious ill-health before age 75 from uncrystallised funds then we must check on your available 'lump sum and death benefit allowance'. If the amount goes over your available allowance we must deduct tax through payroll before payment in the same way as where we pay you a PCLS or UFPLS.

The 'lump sum and death benefit allowance' (continued)

How much of my 'lump sum and death benefit allowance' will I have available, either if I'm in serious ill-health or on my death?

Part of your 'lump sum and death benefit allowance' will already be used up if after 5th April 2024 you've:

- become entitled to a tax-free PCLS;
- been paid an UFPLS; or
- been paid a tax-free serious ill-health lump sum

Example 7:

If you accessed £40,000 in September 2024, drawing £10,000 as a PCLS, then you've used up £10,000 of both your 'lump sum allowance' and 'lump sum and death benefit allowance'.

If you then drew a £100,000 UFPLS in October 2025 then the tax-free element would have used up £25,000 of your two allowances.

If your 'lump sum and death benefit allowance' was £1.073,100 then you would then have £1,038,100 left (assuming none has been used up elsewhere) {£1,073,100 minus £10,000 minus £25,000}.

However, if you used up any of your old 'lifetime allowance' before 6th April 2024 then this has an impact on both your available lump sum allowances.

Part of your 'lump sum and death benefit allowance' will be deemed to have been already used up based on your total lifetime allowance usage on 5th April 2024 (with some limited exceptions).

There is a default way this is calculated; but you (or potentially your personal representative dealing with your estate on your death) do have a window to ask us or another scheme administrator to carry out a specific calculation based on the actual tax-free lump sums you received before 6th April 20214.

The next section of this factsheet explains how the conversion rules work with some examples.

If you have (had) other pensions that pension provider will have provided you with statements showing how much of your lump sum allowances you have used up under their scheme to help you keep track (or, if relevant, your old 'lifetime allowance' before 6th April 2024).

We may ask to see these statements before paying you a PCLS or UFPLS (or where paying a serious ill-health lump sum). On your death, these statements will help your personal representative dealing with your estate work out if there is any liability to declare if you die before age 75 and tax-free lump sums end up being paid.

We will also provide you with a statement telling you how much of your allowances you have used up in total in your SIPP with us in £s.

What death benefits aren't subject to my 'lump sum and death benefit allowance?

The following lump sums paid out on death are not subject to the 'lump sum and death benefit allowance':

- lump sums paid on the death of a member or beneficiary after they have reached age 75 (as that lump sum will not be paid tax-free and is already taxable);
- lump sums paid on the death of a member or beneficiary where under 75 but outside the specified two-year distribution window required by the tax legislation (for the same reason);
- lump sums paid from any member or beneficiary drawdown fund that was already in existence on 5th April 2024 (capped or flexi-access) as drawdown funds crystallised before 6th April 2024 are exempt from inclusion within the 'lump sum and death benefit allowance' (and are not a 'relevant benefit crystallisation event'); or
- any tax-free lump sum paid to a registered charity nominated by you (provided certain conditions apply on your death – if you have a surviving dependant the payment will be subject to your available allowance if you die under age 75 and always taxable if you die aged 75 or older).

The 'lump sum and death benefit allowance' only applies to lump sum death benefits (and not funds allocated to provide a future drawdown pension for your chosen beneficiary or used to buy a beneficiary an annuity).

Where a beneficiary opts to either buy an annuity or leave funds in a pension to support future income drawdown payments then this is not subject to your available 'lump sum and death benefit allowance' and will not use any of it up once paid.

The 'lump sum and death benefit allowance' (continued)

What death benefits aren't subject to my 'lump sum and death benefit allowance? (continued)

Example 6 re-visited again:

Fred only has £823,100 of 'lump sum and death benefit allowance' left on his death under age 75.

In the previous example his beneficiary (Mary) took the remaining £900,000 in his SIPP as a lump sum with £76,900 of this payment being subject to income tax at her marginal income tax rates for the tax year (as not covered by Fred's remaining available allowance).

If instead of taking a lump sum death benefit Mary decided to instead allocate the £900,000 to a beneficiary drawdown fund then this £900,000 designation is not within the 'lump sum and death benefit allowance'; so there is no tax to pay.

As Fred was under age 75, any income drawn by Mary is tax-free (and not subject to income tax).

Provided a chosen beneficiary was nominated by you in your 'Expression of wishes' then they always have the option of taking a pension benefit rather than a lump sum (provided not a trust or an entity rather than a person).

This effectively bypasses any tax consequences with the 'lump sum and death benefit allowance'.

It is therefore important to regularly review (and keep updated) your 'Expression of wishes' form provided to us. Under the tax rules, persons not expressly nominated by you might not be able to choose the pension route under the tax rules if chosen as a beneficiary after your death.

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

It depends.

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 when crystallised will already be factored in through the transitional rules explained in the next section).

If they were created after 5th April 2024 then if you die under age 75 that lump sum will be tested against your available 'lump sum and death benefit allowance' (unless already taxable because the lump sum was paid outside the required two-year period).

What happens if only some of the lump sums paid on my death are not covered by my available allowance and there are multiple beneficiaries?

All the payments would be treated as paid on the same date and any tax due would be assessed on your beneficiaries on a proportionate basis by HMRC.

If I die, is any lump sum paid out tested against my beneficiary's 'allowances'?

No. The lump sum does not use up any of either of their two allowances.

It is only tested against your available 'lump sum and death benefit allowance' (and only where you die under age 75 and is testable against that allowance)

If my beneficiary takes a pension benefit, 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 age 75 (and funds are distributed within two years of us being aware of your death) the income they draw going forward 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' (see earlier question).

Conversion of lifetime allowance to the new allowances

What impact will any 'lifetime allowance' I've used up before 6th April 2024 have on my 'lump sum allowance' and 'lump sum and death benefit allowance' position?

If you hold enhanced protection the position below will be different. If this applies to you, please speak to your financial adviser for more detail.

There is a default way the tax legislation moves over your used 'lifetime allowance' against those two new lump sum allowances and treats part (or all) of your new allowances as already used up.

This default calculation will in most cases be a fair reflection of the tax-free lump sums you received in the past. But in some cases, it might be that this default calculation over-values the level of tax-free lump sums you were actually paid before 6th April 2024.

Where you judge this to be the case, HMRC allow you to ask us (or another pension scheme) to calculate the amount your available new allowances will be reduced by based on the actual amounts of lump sum paid to you before 6th April 2024 (rather than using the overall 'lifetime allowance' usage figure).

Once this is done, you are provided with what is called a '**transitional tax-free amount certificate**'. This will tell you how much of your allowances you have used up based on the specifics of your circumstances and will enable you to evidence this to other pension providers who ask.

You can only ask for a 'transitional tax-free amount certificate' if you have sufficient documentary evidence to prove all your previous pension and lump sum entitlements and must make the request before you take any more lump sums after 5th April 2024.

It is possible for the personal representative dealing with your estate to make an application on your behalf once you've died, but they can only do this provided no tax-free lump sums have been paid to you when alive after 5th April 2024 or any paid on your death already.

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?

Where the default calculation is used

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 tax 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.

Example 8:

John holds no protections.

On 5th April 2024 John had used up in total 45% of the 'standard lifetime allowance' under all pension schemes (equivalent to £482,895 of the £1,073,100 'standard lifetime allowance' at that time).

From 6th April 2024 John 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}

In May 2025 John wants to start taking benefits from £400,000 of his remaining uncrystallised funds he still holds in his SIPP. He takes the full 25% (£100,000) as a tax-free PCLS.

In total John now has used up £220,723 (£120,723 + £100,000) of his 'lump sum allowance' (with £47,552 left).

The same principle applies if you hold one of the types of fixed protection or individual protections in place before 6th April 2024. There are specific rules for anyone who holds enhanced protection.

Conversion of lifetime allowance to the new allowances (continued)

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? (continued)

Example 9:

Janine holds fixed protection 2014.

On 5th April 2024 Janine had used up 35% of her protected lifetime allowance of £1.5 million under all pension schemes (equivalent to £525,000 at that time).

On 6th April 2024 Janine is deemed to have already used up £131,250 (35%) of her new £375,000 lump sum allowance (so she has 65%, or £ 243,750, left). {£131,250 is 25% of £525,000}

In almost all cases the £ value of your 'lump sum allowance' you are treated as having already used up on 6th April 2024 will also come off your available 'lump sum and death benefit allowance'. But there is an exception. Please see later questions.

Where you ask for and hold a 'transitional tax-free amount certificate'

If you have asked for and received a 'transitional tax-free amount certificate' then the amount of both your allowances that is deemed to be used up already will be based on the actual tax-free lump sums you were paid before 6th April 2024 (although any paid before 6th April 2006 would be treated differently).

See a later question for an example.

If I used up some of my lifetime allowance before 6th April 2024 by how much is my available 'lump sum and death benefit allowance' reduced by?

The below does not apply if you hold enhanced protection.

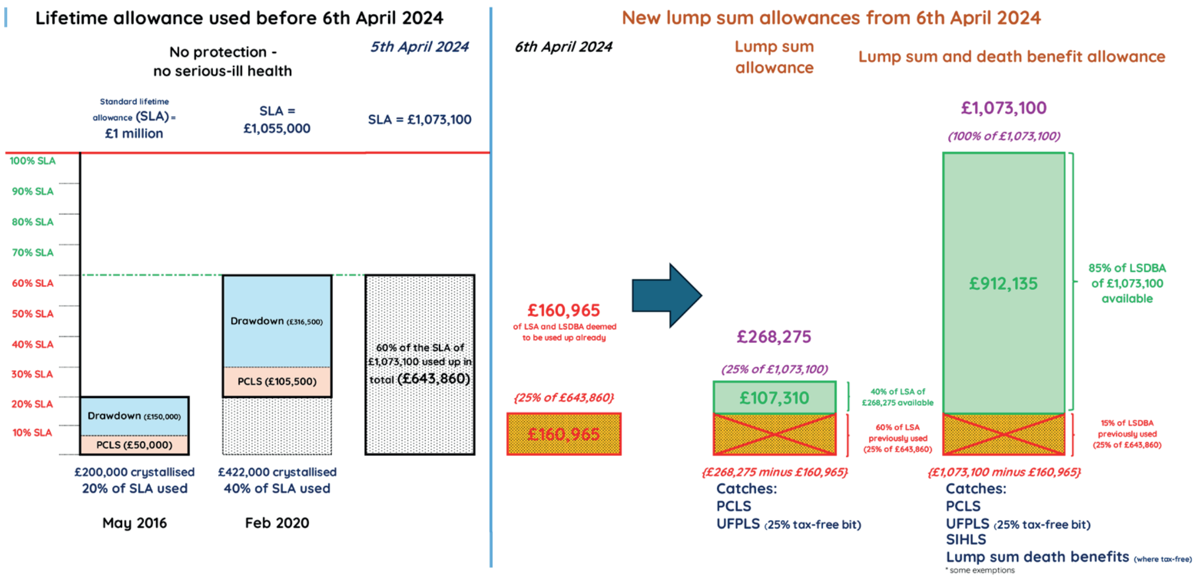
Where the default calculation is used

Under the default tax provisions, if you had used up 100% of your lifetime allowance before 6th April 2024 then you will have no available 'lump sum and death benefit allowance'.

If you had used up some (but not all) of your lifetime allowance then (in most cases) you are treated as having used up the same amount (in £s) of your new 'lump sum and death benefit allowance' as comes off your available 'lump sum allowance'.

This will be 25% of the total lifetime allowance you had used up on 5th April 2024 in £s.

Example 10:



The exception will be where some of the lifetime allowance you used up before 6th April 2024 was due to the payment of a tax-free serious ill-health lump sum.

Here 100% of the total lifetime allowance you had used up on 5th April 2024 in £s would be the amount that came off your available 'lump sum and death benefit allowance'.

Conversion of lifetime allowance to the new allowances (continued)

If I used up some of my lifetime allowance before 6th April 2024 by how much is my available 'lump sum and death benefit allowance' reduced by? (continued)

So in example 10 above, if part of the 60% of the standard lifetime allowance of £1,073,100 was used up because of a serious ill-health lump sum payment then the full £643,860 would be the amount of your 'lump sum and death benefit allowance' deemed to have been previously used-up. (this would not impact, however, on the calculation of the amount that came off your available 'lump sum allowance' – that would still be £160,965)

The same applies for individuals who died before 6th April 2024 under age 75 where a lump sum death benefit was paid before 6th April 2024.

Where you ask for and hold a 'transitional tax-free amount certificate'

If you have asked for and received a 'transitional tax-free amount certificate' the amount of both your allowances that is deemed to be used up already will be based on the actual tax-free lump sums you were paid before 6th April 2024. See a later question for an example.

I had already taken pension benefits or held drawdown funds before 6th April 2006 (when the 'lifetime allowance' was introduced) – how does this impact on my new lump sum allowances?

If you used up some 'lifetime allowance' after 5th April 2006 (so had a 'benefit crystallisation event') then there would already have been a calculation to work out how much of your 'lifetime allowance' was used up because of those pension rights in payment on 5th April 2006. This percentage figure would therefore be included in the default calculation described in the previous question.

If you didn't have a 'benefit crystallisation event' between 6th April 2006 and 5th April 2024 then there is a set calculation that we (or any other pension scheme) must do before paying a PCLS or UFPLS (or if you qualify for a serious ill-health lump sum before age 75) to work out how much of your new allowances are deemed used up because of these older pension rights.

You can ask for a 'transitional tax-free amount certificate' where you had pension rights in payment pre-6th April 2006, but only where you have had a 'benefit crystallisation event' under the old 'lifetime allowance' rules before 6th April 2024 (so only in the first scenario above).

At the time of drafting we are still seeking clarification from HMRC as to how we'd factor in those pre 6th April 2006 pension rights into the calculation in the certificate. We would either base this on the actual lump sums you were paid before 6th April 2006 or use 25% of the lifetime allowance those rights were deemed to have used up at the time you first used up lifetime allowance between 6th April 2006 and 5th April 2024. We will update this fact sheet when we've had clarification.

You must, of course, still have documentary evidence of those old pension benefits and make the application before you take any tax-free lump sums after 5th April 2024.

Am I likely to be better off asking for a 'transitional tax-free amount certificate'?

For most people this default calculation will be a fair reflection of the level of tax-free lump sums they were paid before 6th April 2024 (or will under-estimate this figure, meaning you are better off).

But for some it could over-estimate the level of tax-free lump sums they were paid before 6th April 2024.

HMRC has produced some guidance on the new allowances and an online tool to help you decide if you would benefit from (and can apply for) a 'transitional tax-free amount certificate' at www.gov.uk/guidance/find-out-the-rules-around-individual-lump-sum-allowances.

If any of the below applies to you before 6th April 2024 then you may want to consider asking for a 'transitional tax-free amount certificate':

- you took benefits but didn't take your full 25% PCLS entitlement.
- you had used up 100% of your lifetime allowance on 5th April 2024 (whilst its unlikely you'd end up with any 'lump sum allowance' available you may end up with some available 'lump sum and death benefit allowance').
- you used up lifetime allowance at age 75 or on transfer to an overseas pension scheme (as no tax-free lump sum was paid).
- you were paid a tax-free serious ill-health lump sum.
- you became entitled to a defined benefit pension from a final salary pension scheme or equivalent.
- you took most of your pension benefits between 6th April 2016 and 5th April 2020 (when the 'standard lifetime allowance was lower than £1,073,100) and didn't hold a lifetime allowance protection.

Conversion of lifetime allowance to the new allowances (continued)

Am I likely to be better off asking for a 'transitional tax-free amount certificate'? (continued)

Example 11:

Before 6th April 2024

Georgina held no 'lifetime allowance' protections.

In May 2016 she accessed £400,000 of her SIPP, taking a PCLS of £100,000. This used up 40% of the 'standard lifetime allowance' in force at that time (then £1m).

In Oct 2017 she accessed another £200,000, taking a PCLS {25%} of £50,000. This used up 20% of the 'standard lifetime allowance' in force at that time (then still £1m).

On 5th April 2024 Georgina had in total used up 60% of the 'standard lifetime allowance' of £1,073,100 in force at that time. This is equivalent to £643,860.

From 6th April 2024

Using the standard default calculation method for converting that lifetime allowance use on 5th April 2024 to an equivalent amount of her new lump sum allowances she is deemed to have used up:

- £160,965 (60%) of her 'lump sum allowance' of £268,275 (so she'd have £107,310 left); and
- £160,965 (15%) of her higher 'lump sum and death benefit allowance' of £1,073,100 (so she'd have £912,135 left) {note: Georgina had not drawn a serious ill-health lump sum before 6th April 2024}

The £160,965 is calculated by taking 25% of £643,860.

But if Georgina asked us to instead calculate and issue a 'transitional tax-free amount certificate' based on the actual PCLSs paid to her before 6th April 2024 (£150,000) {£100,000 + £50,000}:

- her available 'lump sum allowance' would be £118,275 (£268,275 minus £150,000)
- her available 'lump sum and death benefit allowance' would be £923,100 (£1,073,100 minus £150,000)

If you are considering asking us or another provider to do a 'transitional tax-free amount certificate' for you then please make sure that you will be better off than under the default calculation. It is possible you could be worse off. See Example 12 below.

Once prepared and issued the certificate cannot be revoked.

We cannot provide you with advice as to whether you would be better off asking for a 'transitional tax-free amount certificate'. Please speak to your financial adviser.

Example 12:

Before 6th April 2024

Ian held no 'lifetime allowance' protections.

In May 2012 Ian accessed £1.2m of his SIPP, taking a PCLS of £300,000. This used up 66.6% of the 'standard lifetime allowance' in force at that time (then £1.8m).

On 5th April 2024 Ian had then in total used up 66.66% of the 'standard lifetime allowance' of £1,073,100 in force at that time. This is equivalent to £715,328.

From 6th April 2024

Using the standard default calculation method for converting that lifetime allowance use on 5th April 2024 to an equivalent amount of his new lump sum allowances he is deemed to have used up:

- £178,832 (66.66%) of his 'lump sum allowance' of £268,275 (so he'd have £89,443 left); and
- £178,832 (16.66%) of his higher 'lump sum and death benefit allowance' of £1,073,100 (so he'd have £894,268 left) {note: Ian had not drawn a serious ill-health lump sum before 6th April 2024}

The £178,832 is calculated by taking 25% of £715,328.

But if Ian asked us to instead calculate and issue a 'transitional tax-free amount certificate' based on the actual PCLSs paid to him before 6th April 2024 (£300,000) he'd be far worse off:

- he'd have no available 'lump sum allowance' (£268,275 minus £300,000)
- he'd have a lower available 'lump sum and death benefit allowance' of £773,100 (£1,073,100 minus £300,000)

Once the certificate was issued Ian could not revoke it.

Conversion of lifetime allowance to the new allowances (continued)

When can I ask for a ‘transitional tax-free amount certificate’?

You can only ask for a ‘transitional tax-free amount certificate’ if you:

- possess complete evidence of all the benefits you were paid before 6th April 2024 (from all schemes); and
- make the request before you become entitled to any more lump sums after 5th April 2024 (as once you’ve done so the opportunity is lost).

FOR MORE INFORMATION PLEASE CONTACT
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