



MES PENSIONS

An Overview of Lump
Sum Allowances

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When you start accessing pension funds for the first time you can normally take up to 25% of the value of uncrystallised funds you are accessing as a tax-free lump sum. This is paid either as a stand-alone pension commencement lump sum (PCLS) or as part of a taxed lump sum called an uncrystallised funds pension lump sum (UFPLS). In addition to this, 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 limit on the level of tax-free lump sums that can be paid from all pension schemes to you in your lifetime and on death.

What are the two new tax-free lump sum allowances?

The two new allowances are called:

- The 'lump sum allowance' which places a lifetime cap on the amount of PCLS and tax-free part of an UFPLS you can be paid in your lifetime.
- The 'lump sum and death benefit allowance' which places a cap of the amount of tax-free lump sums that can be paid in your lifetime and death.

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

Does this mean that I won't be able to take a lump sum if my allowance is used up?

If one of your allowances is used up, you can still take a lump sum, but it will be taxed at your marginal rate of tax.

Similarly, on death before age 75, if your 'lump sum and death benefit' allowance is all used up, a lump sum can normally still be paid to a beneficiary but that lump sum (or the part over your available allowance) would be taxed at the marginal rate of tax for that beneficiary in that tax year.

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

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

For example, any funds that are moved to support a drawdown pension or to buy an annuity are not caught by the 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 anyway.

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

Before 6th April 2024 the 'lifetime allowance' limit tested the value of all your pensions when first accessed (not just the lump sums) or if certain events happened imposed set tax charges if you went over. These rules also impacted 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. The two new lump sum allowances are designed to replace the effective cap on tax-free lump sums the previous 'lifetime allowance' rules imposed.

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.

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

Who is responsible for checking I have enough available allowance?

In your lifetime, we must check that you have enough of both allowances remaining before paying out any PCLS or UFPLS entitlement. This also applies to 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.

Because of this, we will need to ask you some questions before a PCLS or UFPLS and a serious ill-health lump sum can be paid if you qualify.

Important: You should keep records of any pension benefits you are paid, including statements provided to you by a pension provider. It is important you answer our questions honestly and completely. If we pay you any lump sum tax-free where it turns out part is taxable, the liability to any income tax due will still lie with you.

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.

Do the allowances apply once I reach age 75?

Yes, they will in your lifetime. If you still hold uncrystallised funds, then when you decide to draw benefits any PCLS or the tax-free part of an 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 reach age 75 will be subject to UK tax under the rules.

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 information in this document is based on our understanding of legislation and HMRC guidance at the time of print. It should not be relied on as a statement of law or for advice purposes. Whilst every effort has been made to ensure the information is accurate, we will not accept responsibility or liability for any inaccuracy or omission in this document.



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