

Pension scheme allowances and tax charges

This note provides details of the tax privileged allowances that apply when pension benefits are taken including information on the various protection regimes and is for your guidance only. Countrywide Assured plc (“Countrywide Assured”) accepts no liability for any action taken or not taken by an individual or firm as a result of the contents of this material. Whilst we have made every effort to ensure the accuracy of this material we cannot accept responsibility for any consequences (financial or otherwise) arising from relying on it. It is important to note that tax treatment depends on individual circumstances and may change in the future. If you have any questions on this please speak to your financial adviser if you have one. You can find an adviser by visiting unbiased.co.uk

While there are no limits on the benefits you can take from your pension schemes, there are two allowances in place on certain non-taxable lump sums. These are the “Lump Sum Allowance (LSA)” and the “Lump Sum and Death Benefit Allowance (LSDBA)”. If the value of these lump sum benefits from all your pension schemes is greater than one or both of your available allowances, you will be liable to income tax on the excess, which will be at your marginal rate or if on death and any lump sum is paid to a trust or to your estate a 45% tax charge applies.

When any lump sum pension benefits are taken or paid out from a registered pension scheme, this is known as a Relevant Benefit Crystallisation Event (RBCE). A RBCE normally takes place when monies are paid out to provide lump sum pension benefits but can also occur on transfers to an overseas pension scheme (to which a separate allowance applies), or on death. At each RBCE you use up some or all of your Allowances.

Unless you have been granted a form of protection by HMRC the current level of the Allowances is:

Lump Sum Allowance: £268,275

Lump Sum and Death Benefit Allowance: £1,073,100

Lump Sum Allowance (LSA)

The benefits that count towards your LSA are:

- Pension Commencement Lump Sum
- The tax-free lump sum part of any Uncrystallised Funds Pension Lump Sum (UFPLS)
- The tax-free lump sum part of any Stand-Alone Lump Sum

Certain tax-free lump sum benefits paid before 6 April 2024 also need to be taken into account and the LSA will be adjusted if necessary for these. Any small pot payments (of £10,000 or less) do not count towards the LSA.

Lump Sum and Death Benefit Allowance (LSDBA)

The benefits that count towards your LSDBA are :

- Pension Commencement Lump Sum
- The tax-free lump sum part of any UFPLS
- The tax-free lump sum part of any Stand-Alone Lump Sum
- Any Serious Ill Health Lump Sums
- Any Lump Sums paid on death

Any benefits paid before 6 April 2024 also need to be taken into account but the following death benefits are excluded:

- Charity Lump Sum Death Benefits
- Lump sum death benefits paid from pre 6 April 2024 crystallised pension rights
- Trivial Commutation Lump Sum Death Benefits (paid from defined benefit schemes)

Any small pot payments (of £10,000 or less) do not count towards the LSDBA.

Once all your LSA and/or your LSDBA has been used up, you will incur income tax on any benefits taken beyond that level. It is therefore important to work out how much of your Allowances, if any, have already been used up.

If you have pension income which started *before* 6 April 2006 (sometimes known as a pre-commencement pension) and this is the first time any lump sum benefits have been paid since then, that pension income must be taken into account in the calculation. Our factsheet “How to value your pension benefits which commenced before 6 April 2006” explains the calculation basis applicable, depending on the way the pension is being paid.

If you have taken pension benefits since 6 April 2006 and before 6 April 2024 there will be a transitional calculation to work out how that will affect the new allowances. Broadly the amount of LSA and/or LSDBA used up will be calculated based on the amount of Lifetime Allowance used before 6 April 2024.

For those who have taken benefits before 6 April 2024 the two methods of calculating the available LSA at their first RBCE are:

- The standard calculation - 25% of the percentage of LTA used will normally be deducted from the member's LSA.
For example, if someone has used 60% of their LTA before 6 April 2024, their LSA will be reduced by £160,965 (i.e. 25% of 0.6 x £1,073,100).
- The alternative method - this may benefit some individuals. Here the LSA is reduced by the total actual value of the non-taxable lump sum benefits received. (The LSDBA is reduced by the same, and further reduced by the aggregate of all serious ill-health lump sums and tax-free lump sum death benefits paid). For this method to apply, you must have a transitional tax-free amount certificate ('the certificate'). Otherwise the scheme must adopt the standard calculation as a default approach. To obtain the certificate, certain conditions have to be met, including that any application for the certificate must be made before the first RBCE.

Transitional Tax-Free Amount (TTFA) Certificates

As mentioned above most individuals should not need to apply for a transitional tax-free amount (TTFA) certificate as the standard calculation will accurately reflect the tax-free lump sums taken prior to 6 April 2024.

But if, for instance you took less than your 25% tax free cash entitlement or crystallised benefits when the LTA was less than £1073100, it could be beneficial to request a TTFA certificate. More information on this will be available from gov.uk and further information can be found in our leaflet called Transitional Tax-Free Amount Certificates.

Scheme specific tax-free cash sum protection

If you were entitled to more than 25% tax-free cash from a particular scheme on 6 April 2006 you were able to retain that protection under the 'scheme specific tax-free cash rules.' These allow more than the standard amount of tax-free cash to be taken provided that certain conditions are met, such as that all benefits must be crystallised at the same time and that any transfer of the benefits must meet the conditions to be a 'block transfer.' The amount of tax-free cash available is not protected as a percentage, instead it is calculated in accordance with a formula, which has been simplified from 6 April 2024. Even though you may be entitled to a tax free cash sum greater than 25% of your pension savings in a pension plan, the LSA will not be reduced by the actual amount of tax-free cash received. Instead the LSA used will be equal to 25% of the total value of benefits being crystallised.

Transitional Protection granted by HMRC

In certain situations, for example if you have built up a large pension, you may be entitled to higher allowances.

More information on the various forms of protection which you can, or have been able to, apply for, are set out below.

Enhanced protection: offers protection for all individuals with pension rights at 5 April 2006 whether they are valued at more than £1.5 million or not as long as certain conditions are met. It was possible to register for this enhanced protection up to 5 April 2009. It is a means to protect pension rights built up before 6 April 2006 when those rights crystallise after that date. This will usually mean that your benefits can be paid without checking whether the LSA is exceeded although any tax free cash protection will be capped at the tax free cash value on 5 April 2023. New pension savings can be made after 5 April 2023 without losing this protection but will not generate any further tax-free cash entitlement. Your LSDBA will be the value of your uncrystallised funds on 5 April 2024.

Primary protection: If the total value of your pension rights was greater than £1.5 million at 5 April 2006, it was possible to register for primary protection up to 5 April 2009. The purpose of this was to protect the value of your pension rights on 5 April 2006. If you have been granted primary protection you will have a higher personal LSA and LSDBA.

Fixed protection 2012 (FP12): The standard lifetime allowance (SLA) reduced to £1.5 million on 6 April 2012. If you were granted FP12, your LSA will be £450,000 and your LSDBA will be £1.8 million.

Fixed protection 2014 (FP14): The standard lifetime allowance (SLA) reduced to £1.25 million on 6 April 2014. If you were granted FP14, your LSA will be £375,000 and your LSDBA will be £1.5 million.

Fixed protection 2016 (FP16): The standard lifetime allowance (SLA) reduced to £1 million on 6 April 2016. If you apply for and are granted FP16, your LSA will be £312,500 and your LSDBA will be £1.25 million.

Individual protection 2014 (IP14): If you applied for and were granted IP14, you have personal allowances based on your pension savings as at 5 April 2014 of up to £1.5 million. You can continue to make pension savings without losing entitlement to IP14.

Individual protection 2016 (IP16): If you apply for and are granted IP16, you will have a personal allowances based on your pension savings as at 5 April 2016 of up to £1.25 million. You can continue to make pension savings without losing entitlement to IP16.

Before 6 April 2023, if you had Enhanced Protection or any form of Fixed Protection, you could not contribute to your pension as this would invalidate the protection. As long as you had one of these types of protections in place before 15 March 2023, you can recommence pension funding if you wish without invalidating the Protection.

If you applied for Fixed Protection 2016 after the 15 March 2023 or are thinking about applying for it now, you will not be able to make any further pension contributions or start a new pension arrangement other than to accept a transfer of existing pension rights.

Applying for Protection

Currently, applications for FP16 and IP16 can be made online (a Government Gateway account is required) but the deadline for applications is 5 April 2025.

HMRC Look-up Service

There is now a look-up service available to scheme administrators to check an individual's protection. If you applied you will have a protection notification number and scheme administrator reference number which can be found in your personal tax account at www.gov.uk/personal-taxaccount.