

Abolition of the Lifetime Allowance from 6 April 2024

From 6 April 2024, the Lifetime Allowance will no longer apply when you take benefits from your pension. Instead, new allowances will apply when you take a tax-free lump sum or transfer to an overseas pension scheme.

We're providing this information to help you understand if you might be affected by these changes. It's based on our current understanding of draft legislation and of guidance published by HMRC. Changes may still be made before 6 April.

How might the changes affect me?

Whether the changes affect you will depend on your personal circumstances. For example, the total value of your pension savings, whether you've already taken benefits from a pension, and whether you have any form of lifetime allowance protection.

If you're unsure whether, or how, you're affected by these changes, we strongly recommend taking advice from an Financial Conduct Authority (FCA) regulated financial adviser.

The new allowances

The table below gives a high-level summary of the new allowances, how much they are, and when they are applied.

Allowance	Summary
Lump Sum Allowance (LSA)	<p>The LSA limits the tax-free lump sums you can take from pensions. Any amount you take over your allowance will be taxed at your marginal rate of income tax.</p> <p>The standard LSA is £268,275. Your allowance may be different if you have already taken pension benefits or hold lifetime allowance protection.</p>
Lump Sum and Death Benefit Allowance (LSDBA)	<p>The LSDBA limits tax-free lump sums you can take from pensions, as well as tax-free lump sums that can be paid to beneficiaries after your death. It doesn't apply to any benefits you moved into drawdown before 6 April 2024. Any amount over your allowance will be taxed at the recipient's marginal rate of income tax.</p> <p>The standard LSDBA is £1,073,100. Your allowance may be different if you have already taken pension benefits or hold lifetime allowance protection.</p>
Overseas Transfer Allowance (OTA)	<p>The OTA limits the amount you can transfer to a qualifying recognised overseas pension scheme (QROPS) without tax charges applying. Any amount you transfer to a QROPS that exceeds your OTA will be subject to the Overseas Transfer Charge – a flat rate tax charge of 25%.</p> <p>The standard OTA will be the same as your LSDBA.</p>

Frequently Asked Questions (FAQs)

How much is the Lump Sum Allowance?

The standard Lump Sum Allowance is £268,275. Your available allowance may be more or less than this if you have already taken pension benefits before 6 April 2024, or if you hold lifetime allowance protection. It will also be reduced when you take relevant tax-free lump sums from 6 April.

When does the Lump Sum Allowance apply?

The Lump Sum Allowance is used to limit any Pension Commencement Lump Sum (PCLS) and the tax-free part of any Uncrystallised Funds Pension Lump Sum (UFPLS) you take. These lump sums are also limited by your available Lump Sum and Death Benefit Allowance.

The amount you'll be able to take as a tax-free lump sum will usually be the lower of 25% of the benefits being taken, your available Lump Sum Allowance, and your available Lump Sum and Death Benefit Allowance.

How much is the Lump Sum and Death Benefit Allowance?

The standard Lump Sum and Death Benefit Allowance is £1,073,100. Your available allowance may be more or less than this if you have already taken pension benefits before 6 April 2024, or if you hold lifetime allowance protection. It will also be reduced when relevant lump sums are paid out from 6 April.

When does the Lump Sum and Death Benefit Allowance apply?

The Lump Sum and Death Benefit Allowance limits any Pension Commencement Lump Sum and the tax-free part of an Uncrystallised Funds Pension Lump Sum you take. It also limits the tax-free amount of any serious ill-health lump sums paid before you reach age 75, and lump sum death benefits if you die before reaching 75.

What will happen if a lump sum is more than my available lump sum allowances?

If you take a lump sum that's more than your available allowances, the excess amount will be subject to tax.

For lump sums paid in your lifetime, we'll calculate and deduct any income tax due on amounts over your available allowances before we pay the lump sum to you. If we don't already hold a tax-code or P45 for you for the current tax-year, we will apply emergency tax on a month one basis to the taxable amount. This may result in an overpayment of income tax. If so, you will be able to reclaim the overpayment from HMRC.

For lump sum death benefits paid to an individual, we will pay the lump sum without deducting any income tax. It will be for the personal representative or executor dealing with your estate to notify HMRC about any amount exceeding your available allowances. HMRC will then arrange for the payment of income tax from the beneficiary who received the lump sum. If the lump sum isn't paid to an individual or to a charity, the special lump sum death benefit tax charge of 45% may still apply. Where this is the case, we'll deduct the tax charge before paying the lump sum.

Will death benefits used to provide a drawdown pension be tested against lump sum allowances?

When benefits are paid out after your death, the Lump Sum and Death Benefit Allowance is only applied to any tax-free lump sums. If benefits are used to provide a beneficiary with a drawdown pension, they will not be tested against your allowances, and income will usually be tax-free if you die before 75. It had been suggested this would change from 6 April 2024, but this change isn't included in the current legislation.

I've already taken pension benefits. How will it affect my new allowances?

If you've already started taking benefits from a pension ahead of 6 April, your available allowances will be reduced.

If you took benefits before 6 April 2006, but haven't taken anything since, then the annual amount of income you're taking, or are entitled to take, will be used to calculate how much of the new allowances you're deemed to have used. The amount will be calculated for you if you take a tax-free lump sum from 6 April.

If you've taken pension benefits since 6 April 2006 that were tested against your lifetime allowance:

- Your available Lump Sum Allowance will be reduced by 25% of the total lifetime allowance you've used.
- Your available Lump Sum and Death Benefit Allowance will also be reduced by 25% of the lifetime allowance you've used, unless you received a serious ill-health lump sum before your 75th birthday or any lump sum death benefits have been paid before 6 April 2024. If either of these apply, then 100% of the lifetime allowance you've used will be deducted from your Lump Sum and Death Benefit Allowance.

If you've already used all your lifetime allowance, your new allowances will be £0.

In some circumstances, if you've used lifetime allowance but didn't take the maximum amount of tax-free cash you were entitled to, or if the maximum tax-free cash was lower than 25% of the Lifetime Allowance used, then you might be able to increase your available lump sum allowances by applying for a transitional tax-free certificate. HMRC only expect this to apply to a small number of people.

What is a transitional tax-free certificate?

If you've taken pension benefits that were tested against the lifetime allowance, but you took tax-free lump sums of less than 25%, the standard approach set out above will reduce your available allowances by more than the tax-free lump sums you've taken.

If this applies to you, you can apply to the scheme administrator of any pension scheme you're a member of for a transitional tax-free certificate. You will need to apply for the certificate before you take any tax-free lump sum tested against your lump sum allowances.

When you apply, you'll need to provide the scheme administrator with a complete record of all the tax-free lump sums you've received along with evidence of your total lifetime allowance used. If they're satisfied with the evidence, they'll provide you with a certificate showing the amount your allowances should be reduced by based on the lump sums you've actually received. You'll be required to use the certificate when you take benefits from any pension scheme.

We are expecting HMRC to publish more detailed guidance on who they expect would be better off applying for a transitional tax-free certificate, and the evidence scheme administrators will need to receive before they are able to provide a certificate.

I've already got protection from the lifetime allowance. Will it still apply to my new allowances?

If you have lifetime allowance protection, it will continue to apply to the new allowances. This is a complex area. The table below is only intended to provide a high-level summary of how existing protections will apply to the Lump Sum Allowance and Lump Sum and Death Benefit Allowance from 6 April.

Protection Type	Lump Sum Allowance	Lump Sum and Death Benefit Allowance
Enhanced Protection (without lump sum protection)	Increased to £375,000.	Replaced by the value of your uncrystallised rights on 5 April 2024.
Enhanced Protection (with lump sum protection)	Replaced by the amount of PCLS that could have been paid on 5 April 2023.	Replaced by the value of uncrystallised funds on 5 April 2024.
Primary Protection (without lump sum protection)	Increased to £375,000.	£1.8m increased by your primary protection enhancement factor.
Primary Protection (with lump sum protection)	For the purposes of protected lump sums, the maximum lump sum will be the lower of available LSDBA and the value that could have been paid as a stand-alone lump sum on 5 April 2023.	
Fixed Protection 2012	Increased to £450,000	Increased to £1.8m
Fixed Protection 2014	Increased to £375,000	Increased to £1.5m
Fixed Protection 2016	Increased to £312,500	Increased to £1.25m
Individual Protection 2014	Replaced by 25% of your protected Lifetime Allowance.	Replaced by your protected lifetime allowance.
Individual Protection 2016	Replaced by 25% of your protected Lifetime Allowance.	Replaced by your protected lifetime allowance.
Enhancement Factors (Pension Credits, Non-residence and Overseas Transfers)	<p>Unchanged unless you have an enhancement factor from a pension credit acquired before 6 April 2006 and no primary protection.</p> <p>If this is the case, the LSA will be replaced by the lower of £375,000 or £268,275 uplifted by your enhancement factor.</p>	<p>Unless primary protection applies, your LSDBA will be uplifted by your enhancement factor.</p> <p>The standard LSDBA of £1,073,100 will be used unless you have a higher allowance from lifetime allowance protection (excluding primary protection).</p>
Scheme specific protected lump sum	We are waiting for updates from the Government and HMRC on how the maximum lump sum payable will be calculated where a member is entitled to a scheme specific protected lump sum.	
Protected Early Retirement Age	If you have a protected pension age and use it to take benefits before you reach 50, your available allowances will be reduced by 2.5% for every full year between the date you take benefits and the date you would reach Normal Minimum Pension Age (currently 55 but increasing to 57 from 2028).	

Can I still apply for lifetime allowance protection?

If you meet the criteria, it's still possible to apply for Fixed Protection 2016 and Individual Protection 2016, but the Government have announced an application deadline of 5 April 2025. If you qualify for an enhancement factor to increase your allowances, the deadline for applying for these is also 5 April 2025.

Will my pension benefits be tested against new allowances when I reach 75?

If you turn 75 on or after 6 April 2024, your pension benefits won't need to be tested against your allowances at that point, only when you actually take benefits. Under the new rules, your benefits will only be tested when you take a tax-free lump sum or transfers to an overseas pension scheme.

If you are 75 before 6 April 2024, your benefits will still need to be tested against the lifetime allowance.

Will I still get a statement when I take benefits?

If you've already taken pension benefits, you'll have received a statement showing how much of your lifetime allowance was used. This will have shown lump sums as well as amounts moved into drawdown or used to buy an annuity. In future, you'll only receive a statement for the new allowances when you take a tax-free lump sum.

I'm planning to transfer my pension fund to an overseas pension scheme. How do the new rules affect me?

Any transfers you make to a Qualifying Recognised Overseas Pension Scheme (QROPS) are currently tested against your lifetime allowance. From 6 April these transfers will be tested against your Overseas Transfer Allowance instead.

Your Overseas Transfer Allowance will be the same amount as your Lump Sum and Death Benefit Allowance, but it won't be reduced by tax-free lump sums you take on or after 6 April 2024. It will only be reduced by the value of transfers you make to QROPS.

If you make a transfer to a QROPS and the transfer value is more than your available Overseas Transfer Allowance, the amount exceeding your allowance will be subject to the Overseas Transfer Charge. This is a flat rate of tax currently set at 25%.

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