



Tax-free Lump Sum Allowances

Aon Client Briefing

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Prepared by: Aon UK Limited

The calculation of tax-free lump sum allowances changed in 2024 to reflect the abolition of the Lifetime Allowance (LTA). This note explains some of the detail on these allowances.

Background

Until 5 April 2023, the LTA limited the total value of all pension benefits (excluding the State Pension) you could build up over your working life before an additional tax charge (the Lifetime Allowance Charge) applied. For the 2023/24 tax year, the Lifetime Allowance Charge was set at zero in all cases.

On 6 April 2024, the LTA was abolished. In principle, this means there is now no limit on the total value that can be built up as pension funds. However, due to the introduction of two additional allowances, whilst the amount of pension that can be built up is unlimited, the amount that can be taken free of tax as a lump sum has been limited both when accessing pension arrangements and upon death.

Lump Sum Allowance

The Lump Sum Allowance (LSA) is the maximum total amount of tax-free lump sums you can take across all your pensions. The standard LSA is **£268,275**.

You can usually take a pension commencement lump sum of up to 25% of the fund being put into payment, provided this is within your available LSA. If you take an uncrystallised funds pension lump sum (UFPLS), up to 25% of that payment can also be tax-free, again subject to your available LSA.

Any lump sum in excess of your available LSA will be taxed as income at your marginal rate, taking account of your other income in that tax year.

Lump Sum Allowance – Transitional Arrangements

If you accessed pension arrangements before April 2024, your available LSA is reduced to reflect the benefits already taken. By default, the amount of LSA used is treated as 25% of the percentage of LTA you had used before 5 April 2024.

This means anyone who had used 100% of their LTA by 5 April 2024 and does not hold a transitional tax-free amount certificate (see below) will have no further entitlement to tax-free lump sums.

If you accessed pension arrangements before 6 April 2024, you may be able to apply for a transitional tax-free amount certificate. Obtaining this certificate could increase or reduce the tax-free lump sum to which you are entitled. You should seek financial advice before applying for a certificate.

If you have HMRC Lifetime Allowance 'protection' in place such as Enhanced Protection, Primary Protection, Fixed Protection or Individual Protection, you may have an entitlement to a greater level of tax-free lump sum from your pension arrangement, this is a complex matter, and we do not cover the impact of protection in this overview.

Lump Sum and Death Benefit Allowance

The Lump Sum and Death Benefit Allowance (LSDBA) limits the total tax-free lump sums that can be paid from all your pension arrangements, both during your lifetime and on death. The standard LSDBA is **£1,073,100**. The following lump sums are tested against, and would reduce, your LSDBA:

- Defined Benefit (DB) lump sum death benefits
- Pension and annuity protection lump sum death benefits
- Uncrystallised funds lump sum death benefits
- Flexi-access Drawdown and Capped Drawdown pension fund lump sum death benefits (excluding funds designated to drawdown before 6 April 2024)
- Serious ill-health lump sums
- Pension commencement lump sums (PCLS)
- The tax-free element of UFPLSs

Because this is a combined allowance, any tax-free lump sums you take during your lifetime reduce the amount that can be paid tax-free as a lump sum on your death. In practice, this means that, on death, the total lump sum that can be paid tax-free from registered pension schemes to your beneficiaries is limited to £1,073,100, less any tax-free lump sums you have already taken. Any excess will be taxable as income for the recipient.



The information explained in this document is intended as a general guide only and is based on current UK legislation and HM Revenue & Customs (HMRC) practice for the 2026-27 tax year. Tax treatment depends on individual circumstances and tax rules, both of which may be subject to change in the future.

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