

SIPP Member Fact Sheet – Conversion of lifetime allowance used before 6th April 2024 against your lump sum allowances

This factsheet provides you with specific detail about the interaction of the old lifetime allowance rules in force before 6th April 2024 and the new lump sum allowances that came into force on that date (the 'lump sum allowance' and the 'lump sum and death benefit allowance').

It covers how any lifetime allowance you used up under the previous rules reads across to your new lump sum allowances, as well as your option to ask for a 'transitional tax-free amount certificate' to be prepared to calculate this read across based on the actual tax-free lump sums you were paid before 6th April 2024.

This factsheet complements our other factsheets that provide a broader explanation of the new allowances:

- **SIPP member fact sheet – Lump sum allowances: an overview** (this provides a simple overview of the two new lump sum allowance rules that came into force on 6th April 2024); and
- **SIPP member fact sheet - Lump sum allowances** (this covers all aspects of the allowances in full, including the information provided in this fact sheet).

All the above fact sheets are available in the 'Documents & Resources' section of our website (www.optionspensions.co.uk/resources) or on request.

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 or insurance company providing you with an annuity income) 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.

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 cannot do this if you lost the chance to apply in your lifetime (so became entitled to a tax-free lump sum after 5th April 2024) and if they have the documentary evidence required. They must make the application by the 31st of October after the end of the tax year that the first lump sum death benefit is paid.

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 some 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.

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 1:

John holds no old lifetime allowance 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.

Example 2:

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 Examples 4 and 5 later on in this fact sheet for some worked examples.

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 in most cases be 25% of the total lifetime allowance you had used up on 5th April 2024 in £s. See Example 3 over the page.

Conversion of lifetime allowance to the new allowances (continued)

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

However, the tax rules don't allow the certificate to be based on the actual lump sums you were paid before 6th April 2006.

For these old rights the amount included in the certificate would be the same as the default calculation based on the old lifetime allowance figure. We could only use the actual lump sum figures for any benefit events that occurred after 5th April 2006.

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 underestimate this figure, meaning you are better off).

But for some it could overestimate 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 it is 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) (although sometimes any lifetime allowance used up at age 75 can be discounted – see a later question).
- 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.

Example 4:

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

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)

If you are considering asking us or another provider to calculate 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 5 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 5:

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 no available 'lump sum allowance' (£268,275 minus £300,000); and
- 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.

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).

The personal representative dealing with your estate on your death can also possibly apply for a certificate where a tax-free lump sum is being paid on your death before 75, provided they have the required evidence and you did not lose the right in your lifetime (see the last bullet above). They have until the 31st of October after the end of the tax-year when the first tax-free lump sum is paid following your death.

Do I have to tell other pension schemes about my 'transitional tax-free amount certificate'?

Yes.

You must tell any other pension scheme you are a member of about your certificate within 90 days of receiving it (or earlier if you are going to take a tax-free lump sum before then).

You must similarly tell them if the certificate is cancelled or changed by the pension scheme or insurance company who you asked to provide the certificate.

Conversion of lifetime allowance to the new allowances (continued)

I reached age 75 before 6th April 2024 and used up lifetime allowance on my 75th birthday – how is this dealt with?

If after reaching age 75 you didn't become entitled to a tax-free lump sum from any scheme by 6th April 2024 then the default calculation converting your previous lifetime allowance usage to an equivalent amount of your new lump sum allowances ignores the percentage of lifetime allowance used up at these age 75 events.

If you did become entitled to a tax-free lump sum after reaching age 75 and before 6th April 2024 then the lifetime allowance you used up at age 75 is still factored into the default calculation. You may therefore benefit from requesting a 'transitional tax-free certificate' (if you are still permitted to make an application).

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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FOR MORE INFORMATION PLEASE CONTACT

OPTIONS UK PERSONAL PENSIONS LLP

1st Floor Lakeside House, Shirwell
Crescent, Furzton,
Milton Keynes, Buckinghamshire, MK4 1GA.

T: +44 (0) 330 124 1505

optionspensions.co.uk

enquiries@optionspensions.com