

## SIPP Member Fact Sheet – Lump Sum Allowances – An Overview

This factsheet provides you with a broad overview of the two new lump sum allowance rules that came into force on 6th April 2024.

We have prepared further factsheets that provide more detail on these new allowances and a number of worked examples to help with understanding:

- **SIPP member fact sheet - Lump sum allowances** (this covers all aspects of the allowances in full, including the information provided in the next fact sheet below); and
- **SIPP member fact sheet – Conversion of lifetime allowance used before 6th April 2024 against your lump sum allowances** (this covers the position where you used up some or all of your lifetime allowance under the rules in force before 6th April 2024 and how this reads across to your new lump sum allowances)

Our **SIPP member fact sheet – Taking benefits** is also available and gives broader information on the rules and issues to consider about taking benefits from your SIPP.

All the above fact sheets are available in the 'Download' section of our website (<https://www.optionspensions.co.uk/resources>) or on request.

### An overview of the new lump sum allowances

When you start accessing pension funds for the first time you are normally allowed to take up to 25% of the value of the uncrystallised funds you are accessing as a UK tax-free lump sum (with a few exceptions).

This is paid either as a stand-alone 'pension commencement lump sum' ('PCLS') or as part of a one-off taxed lump sum (called an 'uncrystallised funds pension lump sum', or 'UFPLS' for short).

In addition, 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 cap on the level of tax-free lump sums that can be paid from all pension schemes to you in your lifetime and on your death.

#### What are these new tax-free lump sum allowances?

These two new allowances on tax-free lump sums are called:

- the '**lump sum allowance**' (that places a lifetime cap on the amount of PCLS and tax-free part of any UFPLS you can be paid in your lifetime); and
- the '**lump sum and death benefit allowance**' (that places a lifetime cap on the amount of tax-free lump sums that can be paid both in your lifetime and on your death)

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

The 'lump sum and death benefit allowance' allowance will only normally be an issue in your lifetime if you become eligible for a tax-free lump sum before age 75 due to serious ill-health.

These two allowances are only likely to be an issue if you have significant levels of pension benefits.

More information on these two new allowances with worked examples is available in our more detailed **SIPP member fact sheet – Lump sum allowances**, available on our website or on request.

#### Do these new allowances mean that I (or my beneficiaries on my death) cannot take a lump sum when used up?

No.

If one of your allowances is used up you can normally still take a lump sum; but that lump sum will be taxed.

Similarly, on your death before age 75, if your 'lump sum and death benefit allowance' is all used up a lump sum can still normally be paid to a beneficiary, but that lump sum (or the part over your available allowance) would be taxed and not paid tax-free.

### An overview of the new lump sum allowances (continued)

#### **Do these new allowances mean that I (or my beneficiaries on my death) cannot take a lump sum when used up? (continued)**

Where taxable, any lump sum paid to you will be subject to income tax at your marginal tax rates for the tax year.

Where paid on your death, in most cases your beneficiary will be charged income tax on the payment based on their marginal tax rates for that tax year.

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

No.

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

So, for example, any funds that are moved to support a drawdown pension or used to buy an annuity (or the taxed part of an UFPLS) are not caught by the two 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 anyhow).

#### **How do these new allowances interact with the old lifetime allowance rules in place before 6<sup>th</sup> April 2024?**

Before 6<sup>th</sup> April 2024 there was a limit called the 'lifetime allowance' that tested the value of all your pensions when first accessed (not just lump sums) or if certain events happened and (up until 5<sup>th</sup> April 2023) imposed set tax charges if you went over.

These 'lifetime allowance' rules also impacted on the maximum level of tax-free cash you could take and, in some cases, the taxation of benefits on death.

On 6<sup>th</sup> April 2024 the 'lifetime allowance' was abolished. These two new lump sum allowances are designed to replace the effective cap on tax-free lump sums these 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 6<sup>th</sup> 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 6<sup>th</sup> April 2024.

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

How these transitional rules work is explained in our **SIPP member fact sheet – Conversion of lifetime allowance used before 6<sup>th</sup> April 2024 against your lump sum allowances**, available on our website or on request.

#### **Who is responsible for checking I have enough available allowances?**

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

We therefore will need to ask you some questions before paying a PCLS or UFPLS (or serious ill-health lump sum where you are under age 75)

You should keep records of any pension benefits you are paid, including the statements provided to you by any pension provider. It is important you answer our questions honestly and completely.

If we pay you a lump sum tax-free where it turns out part is taxable the liability to any income tax due will still be with you.

### An overview of the new lump sum allowances (continued)

#### Who is responsible for checking I have enough available allowances? (continued)

The 'lump sum and death benefit allowance' will only be an issue in your lifetime if you are drawing a lump sum under age 75 on grounds of serious ill-health (or have done in the past).

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. More on this in our other more detailed factsheets on the lump sum allowances.

#### Do the allowances apply once I've reached my 75<sup>th</sup> birthday?

In your lifetime, yes. If you still hold uncrystallised funds then when you decide to draw benefits any PCLS or the tax-free part of any 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 have reached your 75<sup>th</sup> birthday will be subject to UK tax by default.

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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