

# Tax-free allowances and pension lump sums from 6 April 2024

The government introduced two new tax-free allowances from 6 April 2024; the Lump Sum Allowance (LSA) and the Lump Sum and Death Benefit Allowance (LSDBA). These replaced the Lifetime Allowance (LTA). Although the pension benefits for the majority of members are unlikely to breach either of these tax-free thresholds, it's important you understand what they are and that you have checked how they affect you.

## The Lifetime Allowance (LTA) has been replaced

Prior to 6 April 2024, legislation set out a limit on the total value of pension savings which a member could build up through their lifetime without triggering an extra tax charge of up to 55% (known as the Lifetime Allowance charge). This limit was called the Lifetime Allowance, or LTA. BTPS retirement quotes produced prior to 6 April 2024 stated the percentage Lifetime Allowance used by each pension option quoted.

From 6 April 2024 the government abolished the Lifetime Allowance and replaced it with two new allowances: the Lump Sum Allowance (LSA) and the Lump Sum and Death Benefit Allowance (LSDBA). These allowances limit the amount of tax-free lump sums which an individual can take from their pension arrangements.

## Lump Sum Allowance (LSA) and tax-free lump sums at retirement

A Pension Commencement Lump Sum (PCLS) is a tax-free lump sum that is paid to a member of a registered pension scheme when they start accessing their pension benefits e.g. at retirement. It is often known as "tax free cash" and we refer to it as a "Tax-free lump sum" in BTPS retirement quotes.

The maximum Pension Commencement Lump Sum is usually 25% of the pension benefits being accessed. This is provided you have sufficient remaining Lump Sum Allowance and Lump Sum and Death Benefit Allowance at the date you become entitled to the lump sum.

The rules on what can be paid as a tax-free lump sum from the Scheme are complex. However, as a very high-level summary, the maximum amount of tax-free lump sums (Pension Commencement Lump Sums, tax-free element of Uncrystallised Funds Pension Lump Sums and stand-alone lump sums) which a member can take across all of their pensions combined is **£268,275**. This is the Lump Sum Allowance.

However, although the default starting Lump Sum Allowance is currently £268,275, this limit also takes account of tax-free lump sums taken before 6 April 2024. This means the £268,275 figure may be adjusted down if you became entitled to benefits from your other pension arrangements before 6 April 2024 (and for some people with historic protections under the tax rules, the starting maximum could be higher).

If you are a member who has an additional voluntary contribution (AVC) fund and you choose a 'Max tax-free lump sum' pension option from BTPS, the Scheme Rules allow you to take any remaining AVCs as a cash lump sum. This is called an Uncrystallised Funds Pension Lump Sum

(UFPLS). Up to 25% of this sum is usually tax-free and the rest is taxed as income. If you choose an UFPLS, the tax-free element will count towards your Lump Sum Allowance and Lump Sum and Death Benefit Allowance.

Each time you take a tax-free lump sum (i.e. either a Pension Commencement Lump Sum or tax-free element of an Uncrystallised Funds Pension Lump Sum) after 6 April 2024, the amount of your available Lump Sum Allowance is reduced until it reaches zero, after which any further lump sums which can be paid would be taxed at your marginal rate.

## **Lump Sum and Death Benefit Allowance (LSDBA)**

The tax rules from 6 April 2024 also set a limit on the tax-free parts of lump sums which can be paid to the member, and in respect of the member on death. It includes Pension Commencement Lump Sums (PCLS), the tax-free element of any Uncrystallised Funds Pension Lump Sums, serious ill-health lump sums, stand-alone lump sums and certain tax-free lump sum death benefits. This limit is **£1,073,100** and is referred to as the Lump Sum and Death Benefit Allowance. However, this limit also takes account of tax-free lump sums taken before 6 April 2024, so this figure may be adjusted down if you became entitled to benefits from your pension arrangements before 6 April 2024 (and for some people with historic protections under the tax rules, the starting maximum could be higher).

Again, there are rules whereby each time these lump sums are paid to, or in respect of a member, the overall Lump Sum and Death Benefit Allowance is reduced until it reaches zero, after which any further lump sums which can be paid would be taxed at your marginal rate.

## **At retirement**

A check is made against each of these allowances when you decide to take your pension and we will ask you for information about any pension benefits you received before 6 April 2024 and tax-free lump sums you have received from 6 April 2024. These tax allowances apply to tax-free lump sums you received both before and after 6 April 2024.

## **If you took benefits from a pension arrangement before 6 April 2024**

There are special rules in place if you took benefits from any of your pension arrangements before 6 April 2024. Generally, these mean that in most cases, by default, 25% of the amount of Lifetime Allowance which you used up before 6 April 2024 (subject to an adjustment) will be taken off your overall Lump Sum Allowance and Lump Sum and Death Benefit Allowance.

You also have the option to request a Transitional Tax-Free Amount Certificate from any of your pension schemes. The application can only be made before the first 'Relevant Benefit Crystallisation Event' (RBCE) since 6 April 2024 – which means the first time, after that date, that you start taking money from any of your pensions.

HMRC has advised that the Transitional Tax-Free Amount Certificate would only usually be applied for where individuals can provide complete and accurate evidence that, prior to 6 April 2024, they **received pension benefits but either did not take a tax-free lump sum or did not take the maximum tax-free lump sum available**.

Go to <https://www.tax.service.gov.uk/guidance/Check-if-you-can-apply-for-a-Transitional-tax-free-amount-certificate/start> to check if you can apply for a Transitional Tax-Free Amount Certificate. You may wish to discuss this option with an independent financial adviser before making an application.

If you already have a Transitional Tax-Free Amount Certificate from another pension scheme, then you will need to provide us with this certificate when you apply to take your pension.

If you would like to request a Transitional Tax-Free Amount Certificate from BTPS, then please submit your request to **member@btps.co.uk** writing 'Transitional Tax-Free Amount Certificate request' in the subject line and we will send you more information on the application process. BTPS has three months to issue the certificate or notify the applicant that the application has been refused.

## Impartial guidance

If you are not sure how this affects you, or you think the total value of all your tax-free lump sums might be nearing the new lump sum limits, please contact the government's free, impartial pensions guidance service, MoneyHelper at **moneyhelper.org.uk** or speak to an independent financial adviser. MoneyHelper can help you find an independent financial adviser (IFA) with their retirement advisor directory.

## BT's retirement advice arrangement

BT Group has negotiated preferential rates with two firms of financial advisers, both of which are regulated and authorised by the Financial Conduct Authority, to provide retirement advice. If you would like to find out more, information is available on the 'Where to go for financial advice' page of our website. Visit **btps.co.uk** and go to 'Preparing for retirement'. Of course, the decision to take financial advice and who you choose to help you is a personal decision, and there is no obligation to use these two firms of financial advisers. The BTPS Trustee has not been involved in the selection or appointment of these financial advisers. This statement is not a recommendation of the capability of, or the services available from, the two financial adviser firms, but is merely to inform you of the availability of their services.

## Glossary

### Lifetime Allowance

This was the limit on the total value of pension savings you could build up through your lifetime without triggering an extra tax charge (known as the lifetime allowance charge). For the 2023/2024 tax year the standard Lifetime Allowance was £1,073,100.

The government removed the Lifetime Allowance with effect from 6 April 2024. There is now a Lump Sum Allowance, Lump Sum and Death Benefit Allowance and an Overseas Transfer Allowance.

You can find out more on the new tax-free allowances in this guide and at [moneyhelper.org.uk](https://www.moneyhelper.org.uk)

### Lifetime Allowance Protections

Because the Lifetime Allowance (LTA) changed over the years, people who had benefits that were over the Lifetime Allowance were able to protect the value of their benefits from future tax charges. This remains relevant even though the Lifetime Allowance itself has now been abolished.

There are different types of protection, each with different conditions attached.

Check the latest government information about the different protections at [gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance](https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance). Individuals have until 5 April 2025 to apply for Fixed Protection 2016 and Individual Protection 2016

If you've previously protected your Lifetime Allowance through HMRC and not told us, please give us a call on 0800 731 1919 and tell us your protection certificate number.

### Pension Commencement Lump Sum (PCLS)

This is a tax-free lump sum that is paid to a member of a registered pension scheme when they start accessing their pension benefit e.g. at retirement. It is often known as "tax free cash" or a "tax free lump sum".

The maximum Pension Commencement Lump Sum is usually 25% of the pension benefits being accessed. This 25% figure will generally apply as long as it's not more than your remaining available Lump Sum Allowance, or Lump Sum and Death Benefit Allowance when you become entitled to the lump sum. If you have Lifetime Allowance Protections, you may have a protected right to take a higher Pension Commencement Lump Sum.

A Pension Commencement Lump Sum can only be paid if a member has Lump Sum Allowance and Lump Sum and Death Benefit Allowance available.

There is a risk of high tax charges if you use any part of your PCLS as a contribution to another registered pension scheme as this could be classed as recycling a pension commencement lump sum. For more information visit [gov.uk](https://www.gov.uk) and search under pension recycling.

**Uncrystallised Funds Pension Lump Sum (UFPLS)**

If you choose a Max tax-free lump sum pension option, the Scheme Rules allow you to take any remaining AVCs as a cash lump sum. This is called an Uncrystallised Funds Pension Lump Sum (UFPLS). Up to 25% of this sum is usually tax-free and the rest is taxed as income dependent on you having sufficient available Lump Sum Allowance and Lump Sum Death Benefit Allowance at the time you become entitled to the lump sum.