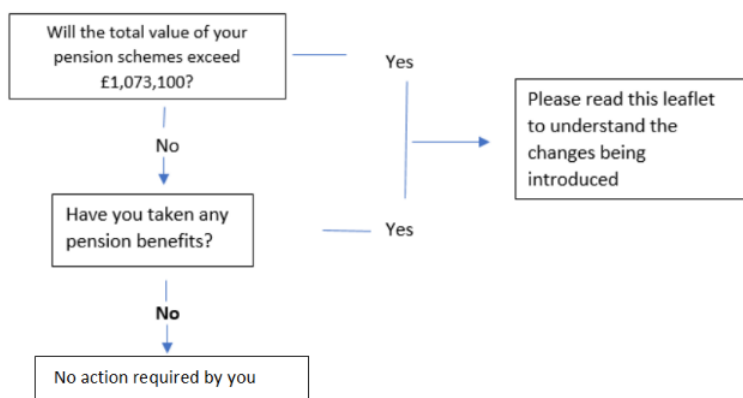


Important information about pension tax-free limits

From 6 April 2024 the existing Lifetime Allowance (LTA) will be replaced by two new allowances – the Lump Sum Allowance (LSA), and the Lump Sum and Death Benefit Allowance (LSDBA).

So what will these changes mean for you?

You may or may not be affected by these changes, so here are some questions that will help clarify whether or not you need to read this leaflet in full.



If you answered 'No' to both questions, you don't need to do anything. The amount of tax-free benefits you receive will be broadly the same, but you should note that where previously, any LTA information quoted percentage figures, you'll now see these represented in monetary terms.

If you've answered 'Yes' to both questions

If you've already taken pension benefits and the tax-free amount you received was less than the default amount of 25% (see the calculation below), you may be entitled to apply for a **transitional tax-free amount certificate**, which will mean your new allowances will only reduce by the actual tax-free amount paid to you, instead of the default 25%.

If you think you're eligible for this, and your benefits may be over the default allowances, it's important you apply for this prior to the first time you take a lump sum benefit, after 6 April 2024. If you were eligible for a higher LTA, but have not yet applied for this, there's now a deadline of 5 April 2025 for applications to be made.

You'll find explanations on any highlighted terms, at the end of this leaflet.

What was the Lifetime Allowance (LTA)?

The LTA was a limit on the total amount of benefits that could be taken from your pension without having an additional tax charge applied. The standard LTA in the 2023/24 tax year was £1,073,100. Where this limit was exceeded, the amount of additional tax you had to pay was dependent on how you took your pension benefits. Until 6 April 2023, this tax charge was 55% for lump sums or 25% where benefits were taken as income.

In the 2023/24 tax year, the additional LTA tax charge was replaced with marginal rate tax. The maximum amount you could take tax-free was usually 25% of your fund, or 25% of your LTA, if lower.

What are the new allowances?

Lump Sum Allowance (LSA)	£268,275	LSA applies to the total amount of tax-free lump sums including the tax-free element of any Uncrystallised Funds Pension Lump Sums (UFPLS) .
Lump Sum and Death Benefit Allowance (LSDBA)	£1,073,100	LSDBA is a limit on the amount of lump sum death benefits and serious ill health lump sums that can be paid without tax.

If your LTA was protected, you'll have a higher allowance based on your protected amount.

There's also another new allowance, the **Overseas Transfer Allowance (OTA)**.

How do the new allowances work?

From 6 April 2024 only benefits taken as a lump sum (including regular withdrawals where there's a tax-free element) will be tested against the new allowances. If either limit is exceeded, the excess is taxed just like any other pension income received.

Tax-free cash is normally 25% of the benefits being taken, but there's a cap of the lower of the two new allowances.

What if you've already used Lifetime Allowance (LTA)?

We'll assume 25% of your LTA was taken as a tax-free lump sum and will reduce your new limits (LSA & LSDBA) accordingly. Let's take a look at an example of how we'd work out your remaining tax-free allowance.

If you'd used 100% of your LTA, you'd have received 25% of that tax-free. So, if you'd used 40% of your LTA, we'd assume 10% was taken tax-free (10% of £1,073,100 = £107,310).

	Lump Sum Allowance (LSA)	Lump Sum and Death Benefit Allowance (LSDBA)
Current allowances	£268,275	£1,073,100
Less 10% tax-free LTA taken	-£107,310	-£107,310
Remaining allowance	= £160,965	= £965,790

As you can see from this example, if you've taken 40% of your existing LTA then the new allowances would reduce to £160,965 for LSA and £965,790 for LSDBA.

To understand how these new allowances could affect you, we'd recommend you speak to your financial adviser.

What else is different?

If we've been telling you the percentage of LTA you've used in our pension scheme and other pension schemes, we'll now tell you the amount of the new allowances instead, so any figures will be shown in £, rather than %.

Any money put into drawdown after 5 April 2024 will be put into a separate account, because any lump sum death benefits paid from drawdown accounts started on or after 6 April 2024, need to be tested against the new LSDBA. You'll see the new account details on your regular statements.

And instead of telling us if you've used LTA in another pension scheme, you now need to tell us about any tax-free lump sums you take from other schemes.

Uncrystallised Funds Pension Lump Sum (UFPLS) explained

This refers to the option you have to take lump sums directly from a pension from age 55 (rising to 57 in 2028) without having to go into drawdown or buy an annuity. It means you can leave money in your pension pot and take lump sums from it when you want to – until your money runs out or you choose another option.

Transitional tax-free amount certificate explained

This certificate can be requested from any registered pension scheme that you're a member of and is used to prove that you're entitled to a lower reduction in your LSA and LSDBA than that provided for by the standard default calculation.

Overseas Transfer Allowance (OTA) explained

This applies if you want to transfer your pension to an overseas pension scheme. This allowance is the same as your LSDBA and any amount in excess of this, is subject to the overseas transfers charge at 25%.

If you think you may be affected by any of the above changes, we recommend you speak to a financial adviser. If you don't have an adviser, you can find one at unbiased.co.uk