



The Pensions Lump Sum Allowance

Factsheet

The Lump Sum Allowance for 2024/25 is £268,275.

The Lump Sum Allowance (LSA) is the limit put on TOTAL pension tax-free amounts that an individual may draw from their pensions. Withdrawals of amounts above the limit will trigger a tax charge. If you are affected by the LSA, and would like to understand more about your options, please contact Shackleton Employee Benefits.

- When you withdraw money from a pension, you can usually take up to 25% of your pot as a tax-free lump sum. However, you are limited to a total of £268,475. Any withdrawals over that amount will be subject to tax at your marginal rate.
- Each time you take benefits, your pension provider will give you a certificate showing how much of your LSA you have used. Once your cumulative withdrawals exceed 100% of the LTA they become taxable.
- In the past, when reductions were made to the Lifetime Allowance (LTA), which is now abolished, individuals could 'protect' existing pots so that they retained an LTA higher than the new one. This LTA protection still applies to the LSA and so individuals holding HMRC Protection may still qualify for total tax-free lumpsums in excess of the LSA.
- **Lump Sum and Death Benefit Allowance (LSDBA)** – This limits the amount of tax-free money that may be taken from pensions, not just during your lifetime, but also when you die before age 75. For 2024/25, this limit is £1,073,100. You or your beneficiaries will pay income tax on any amounts above this. All of your pot is taxable on death after age 75.
- LSDBA will also apply to lump sum death benefits provided by 'Registered' Group Life Assurance schemes.
- There are some exceptions – the primary one is those who started pensions with withdrawals prior to LSDBA being introduced on 6/4/24. Any death benefits from such a pension will still be tax-free if death is before age 74. The other primary exceptions are those who hold LTA Protection.
- Small lump sum payments (payments under £10,000 are not tested against either of the allowances.

As you can see, there are many considerations, and some of these can be complex. This Factsheet is not designed to be a comprehensive guide but just to give an overview to help you understand if you may be affected. Full details of the LSA and LSDBA are available here:

<https://www.gov.uk/tax-on-your-private-pension/lump-sum-allowance>

<https://www.moneyhelper.org.uk/en/pensions-and-retirement/building-your-retirement-pot/lifetime-allowance-for-pension-savings>