

# Keeping it Brief

## Lump Sum Allowance

**This explains the new lump sum allowance (LSA) introduced on 6 April 2024.**

**There is no limit to how much you can build up in pension benefits, but the LSA limits the amount of tax-free lump sum that you can take from your pension arrangements unless you have certain pension protections in place.**

You can normally take a maximum of 25% of the value of your pension pot as a tax-free lump sum. The LSA caps the total maximum tax-free cash that you can withdraw from all pensions throughout your lifetime to £268,275. Anyone with a right to a higher tax-free cash entitlement will keep their right to take a higher amount.

A check is made against the LSA by the pension provider or administrator each time tax-free benefits are taken. Once you have used up all your LSA, any further lump sums are taxed at your marginal rate of income tax. From 6 April 2024, taking any of the following lump sums will count towards your LSA:

- Pension commencement lump sum (often called tax-free cash lump sum)
- 25% tax-free element of any uncrystallised funds pension lump sums (a flexible way of taking your pension pot as cash)
- Stand-alone lump sum

The following lump sums don't count towards your LSA:

- Small lump sum payments (encashing in full a pension worth £10,000 or less)
- A winding up lump sum if your pension scheme is closing and your lump sum is less than £18,000
- A 'trivial commutation' lump sum (this normally applies to defined benefit pensions where the combined value is less than £30,000)

Tax-free benefits taken prior to 6th April 2024 will normally also count towards the LSA..

## Protection against LSA

Prior to the introduction of the LSA, pension benefits were tested against the Lifetime Allowance (LTA) which included a maximum amount that could be taken tax free.

Pension savers have previously been able to apply to protect any pension benefits in excess of the LTA in force at the point they are taken from tax charges by applying for protection through HM Revenue & Customs (HMRC). These protections often also protected the amount of tax-free cash that could be paid. The last day to apply for protection was 5th April 2025.

Also, individuals who had pension benefits before 6 April 2006 may have a right to a higher tax-free cash amount than the usual 25% available.

Under the introduction of the LSA, these protections are still recognised, although for some forms of protection, the calculations for tax-free cash have been changed slightly. If you have previously obtained a form of LTA protection from HMRC and want to understand what the changes may mean for you, you should get financial advice.

### Further information

You can find more information about the LSA at: **Tax on your private pension contributions: Lump sum allowance - GOV.UK**

If you think that you may be affected, you should seek further information and consider taking financial advice. You should be aware that an adviser will normally charge for using their services. If this is something you would like to discuss, please contact SecondSight at [enquiries@second-sight.com](mailto:enquiries@second-sight.com).

#### Please note:

This briefing note gives an overview only. It does not provide specific advice. It is based on our understanding of tax regulations for the 2025/26 tax year which may change in the future.

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Pension income could also be affected by interest rates at the time benefits are taken.

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When investing your capital is at risk.

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