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# Lump sum allowance and lump sum & death benefit allowance

Information accurate for 2026/7 tax year, valid until April 2027

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# Introduction

There have been significant recent changes in the amount of pension benefits you can build up without triggering tax charges

Until April 2024, there was a maximum level of pension benefits that could be built up without incurring tax charges which was known as the lifetime allowance (LTA). The LTA for last tax year that it applied (2023/2024) was set at £1,073,100. However, in the 2023 March Budget it was announced the LTA would be abolished from 6th April 2024 and the legislation for this has now been enacted so that the LTA now no longer exists.

The legislation to abolish the LTA also introduced two new allowances in respect of pensions which are:

- The Lump Sum Allowance (LSA) and
- The Lump Sum & Death benefits Allowance (LSDBA)

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# Lump sum allowance (LSA)

The LSA is the maximum amount of tax free cash that can be paid out to one individual across all pensions that they have. The Government have announced that the LSA has been set at £268,275 and it is not planned that this will increase. This means that whilst you are able to take 25% of any defined contribution pension as a lump sum, you are limited to the amount that is free of tax to this level. Any lump sum pension benefits taken in excess of £268,275, will be subject to income tax at the recipient's marginal rate.

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# Lump sum & death benefit allowance (LSDBA)

The LSDBA is a fixed cumulative limit of £1,073,100 on the total tax-free elements of lump sums that can be paid from pensions to, or in respect of, a member. This allowance will be used up by the payment of any tax-free lump sums during an individual's lifetime, as well as, the tax-free elements of serious ill health lump sums and lump sum death benefits. Any payment in excess of this allowance will be subject to tax at the recipient's marginal rate. The value of the payment is added to the recipient's income and taxed at the appropriate income tax rate meaning some individuals could potentially pay a higher level of income tax on these payments than they do on their regular income.

The exception to these limits is where an individual has a valid HMRC LTA protection in place, which provided them with a higher allowance. If an individual holds a valid enhanced protection or any valid fixed protections they will be able to keep their higher tax-free cash protection.

## **Previous protection against LTA reduction:**

HMRC has confirmed that members that hold LTA protections will be able to accrue new pension benefits, join new arrangements or transfer without losing these protections provided they were applied for before 15th March 2023. This does not apply to those members that take out LTA protection after this date.

More information: There is more information about the lifetime allowance on the UK Government website: [www.gov.uk/tax-on-your-private-pension/lifetimeallowance](https://www.gov.uk/tax-on-your-private-pension/lifetimeallowance)

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If you need further help understanding this matter and how it might impact you, we're here to help.



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Making changes with your pensions and investments may have tax consequences and it is important to bear in mind that this document is produced as a guide only; NFP does not provide tax advice and this document is not intended to provide advice. The level of taxation applicable depends on individual circumstances and such levels and bases of taxation can change. It is your responsibility to ensure that you understand any applicable tax consequences and should consider taking professional tax advice if necessary.

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NFP180325