

# Lump Sum Allowance

## Video transcript

Here we look at the Lump Sum Allowance which is the maximum level of tax-free cash lump sum payable when you take your pension savings. The Lump Sum Allowance was introduced with effect from 6 April 2024 and it's the maximum tax-free lump sum you can take from your pension savings.

The former Lifetime Allowance, which was the maximum value of benefits that could be taken from a registered pension scheme without being subject to the Lifetime Allowance charge, was removed from 6 April 2024. Before 6 April 2023 the Lifetime Allowance was £1,073,100, and of this Lifetime Allowance, 1/4 of it, or 25% of it, could be taken as tax-free cash. So that meant £268,275 could be taken as tax-free cash.

If you had benefits in value more than the Lifetime Allowance, there was an additional tax charge of 25% in addition to income tax if these benefits were taken as income, or a 55% charge if the excess was taken as cash. From 6 April 2023, the Lifetime Allowance was still in place and you could still take £268,275 tax-free cash, but the additional tax charge if the value of your benefits was more than the Lifetime Allowance was removed.

Then from 6 April 2024, the Lifetime Allowance was removed altogether, but the maximum tax-free cash amount is being kept, and it's been kept at £268,275. It's now called the Lump Sum Allowance, and where the Lifetime Allowance looked at the total value of all benefits, the Lump Sum Allowance is the limit on the total amount of certain tax-free cash lump sums that you'll be able to receive before marginal rate taxation applies.

The calculation for the maximum lump sum you can take depends on the value of benefits that you're taking from any of the pension schemes that you have. If taking all your benefits from USS, for example, it will be calculated using the value of your Retirement Income Builder (DB) plus any Investment Builder (DC) savings that you have.

You can use the Benefit Calculator to estimate what the maximum lump sum will be for you, based on the value of your benefits from USS only though. The Benefit Calculator will not take into account benefits you might have with other schemes, and you'll find the Benefit Calculator on My USS.

The limit is £268,275 which is 25%, or 1/4, of the Lifetime Allowance of £1,073,100 that was in place as at 5 April 2024. But, the Lump Sum Allowance might be higher if you have a former Lifetime Allowance protection.

There are no longer any specific Lifetime Allowance checks; just consideration of the tax-free lump sum amounts. And just to note, the Lump Sum Allowance for the current tax year 2025/26 is still £268,275.

Now, each time you take a tax-free lump sum from your benefits or savings, you'll use up some of your Lump Sum Allowance. If you have not yet taken any benefits from any pension schemes yet, then the limit for you will be £268,275.

However, if you've already accessed benefits, then depending on whether you accessed them before or after April 2024, there's different information that you'll need to gather to work out how close you are to the Lump Sum Allowance. We'll have a look now at how to work out how close you are to the Lump Sum Allowance.

First you need to look at if you've taken any benefits prior to 6 April 2024, and if you have, you take a quarter of the amount of the Lifetime Allowance that you've used for any benefits taken prior to 6 April 2024, as noted in the relevant paperwork from the scheme where you took the benefits. Then, work out 25% of the amount of any benefits transferred overseas to a Qualifying Recognised Overseas Pension Scheme (QROPS) before 6 April 2024, if applicable.

Also, if you turn 75 before 6 April 2024, even if you did not access any benefits at the time, you need to include in any Lump Sum Allowance calculation a 1/4, or 25%, of the value of any unclaimed pension benefits at your 75th birthday. You then need to look at the value of any benefits paid as a tax-free cash lump sum from 6 April 2024.

For example, a Pension Commencement Lump Sum, this is a one-off tax-free lump sum you may have opted for when you're retired or flexibly retired or when buying an annuity. Or the tax-free element of an Uncrystallised Funds Pension Lump Sum, or UFPLS, and an UFPLS is where you've taken a cash sum from your Investment Builder savings or other defined contribution (DC) savings.

And the tax-free element of any drawdown payments, including flexi-access drawdown, would need to be looked at as well. If all these figures come to a total higher than the Lump Sum Allowance of £268,275, you might be subject to a tax charge and any lump sum benefits in excess of your available allowance.

And this will then be taxed at your marginal rate and deducted at source from any taxable lump sum benefits that USS pay to you. For example, if you're a 40% taxpayer and your lump sum exceeds your available Lump Sum Allowance, you'll pay 40% tax on the amount in excess of the limit.

Let's look at a member who has taken benefits in a few different ways. So a member had a pension that they started taking before April 2024 and used 40% of the Lifetime Allowance, or LTA.

Now assuming that 1/4 of their Lifetime Allowance usage was taken as tax-free cash, that means that they took 10% of the Lifetime Allowance as tax-free cash. The Lifetime Allowance of 5 April 2024 was £1,073,100, meaning that the member's used up £107,310 of the Lump Sum Allowance, which is 10% of that £1,073,100.

Then they took a cash lump sum, known as an UFPLS, in May 2024. The UFPLS was £60,000 and a quarter of this was tax-free, £15,000, so they've used up another £15,000 of the Lump Sum Allowance.

This leaves our member with the remaining £145,965 of the available Lump Sum Allowance. Now each time they take a tax-free cash lump sum from their pension benefits or savings, they'll use up some of their Lump Sum Allowance.

And if they go over the Lump Sum Allowance, they may need to pay tax on any lump sum benefits in excess of their available allowances.