

Lump Sum and Death Benefit Allowance

Video transcript

Here we'll look at the Lump Sum and Death Benefit Allowance (LSDBA). The Lump Sum and Death Benefit Allowance is the limit on the total amount of tax-free lump sum that can be paid in the event of an individual's death before marginal rate taxation arises.

The allowance includes any tax-free lump sums used up under the Lump Sum Allowance, any benefits paid to you as a serious ill health lump sum before age 75, or any other tax-free lump sum death benefits payable in the event of your death before age 75. For example, if a death benefit is paid from another pension arrangement that you have.

The limit for the 2025/26 tax year continues to be £1,073,100, but might be higher if you have Lifetime Allowance protection.

Each time you take a tax-free lump sum from your benefits or savings, or if a serious ill health benefit or tax-free death benefit lump sum is paid before age 75, you'll use up some of your Lump Sum and Death Benefit Allowance. In the event of your death, any lump sum death benefit paid in excess of your remaining allowance will be taxed at your beneficiaries marginal rate. And your legal personal representative will be responsible for reporting this information to HMRC, who will then calculate the tax to be deducted and collect this directly from your beneficiaries.