

Tax-free lump sum allowances 2025/26

Aon Client Briefing

Prepared for: Aon clients
Prepared by: Aon UK Limited

6 April 2025



Tax-free lump sum allowances

The calculation of tax-free lump sum allowances changed in 2024 to reflect the abolition of the Lifetime Allowance. This note explains some of the detail on the new allowances.

Background

Until 5 April 2023, the Lifetime Allowance limited the value of all the pension benefits you could build up from almost all sources (apart from the State) over your working life before an additional tax charge was levied (the Lifetime Allowance Charge). For the tax year 2023/24 the Lifetime Allowance Charge was set to zero in all cases.

On 6 April 2024, the Lifetime Allowance was entirely abolished, meaning an individual can, potentially, build up an unlimited amount within their pension fund. However, due to the introduction of two new allowances, whilst the amount of pension that can be built up is unlimited, the amount that can be taken free of tax, as lump sums, has been limited both when accessing retirement benefits and upon death.

Lump Sum Allowance

The Lump Sum Allowance (LSA) governs the amount of lump sums anyone can take across all their pensions without income tax being applicable to the lump sums taken. The LSA has been set at an amount of £268,275.

You are able to take a tax-free pension commencement lump sum from your pension arrangement on retirement of up to 25% of the fund being put into payment, provided the amount is within your available LSA. If an 'uncrystallised funds pension lump sum' is taken, up to 25% of that will also be tax free, provided it is within your available LSA. Any excess over the LSA will be taxed as income with the rate of tax applicable dependent upon other income you have in that tax year.

Transitional Arrangements

If you have accessed pension benefits prior to April 2024, the amount of LSA available to you is reduced by an amount reflecting the benefits already taken. The amount of the allowance 'used up' is calculated by default as 25% of the amount of Lifetime Allowance (LTA) used up, as at 5 April 2024.

This would mean any individual who had used 100% of their LTA as at 5 April 2024, and does not have a transitional tax-free amount certificate (see below), would have no further entitlement to a tax free lump sum.

HMRC Protection

If you have HMRC Lifetime Allowance 'protection' in place, such as Enhanced Protection, Primary Protection, Fixed Protection or Individual Protection, you may have an entitlement to a greater level of tax-free lump sum from your pension arrangement, this is a complex matter and we do not cover the impact of protection in this overview.

Individuals who accessed benefits prior to 6 April 2024 may be able to obtain a 'transitional tax-free amount certificate'. Obtaining such a certificate could increase or reduce the tax-free lump sum to which a member is entitled. You should seek financial advice before obtaining a certificate.

Lump Sum and Death Benefit Allowance (LSDBA)

The Lump Sum and Death Benefit Allowance (LSDBA) limits how much can be paid from all your pensions arrangements as a tax-free lump sum, both during your lifetime and on death. This 'standard' allowance has been set at £1,073,100. The following lump sums will be tested against, and would reduce, your available allowance:

- Defined Benefits (DB) lump sum death benefits
- pension and annuity protection lump sum death benefits
- uncrystallised funds lump sum death benefits
- drawdown (capped) pension fund lump sum death benefits (excluding funds put into drawdown prior to 6 April 2024)
- flexi-access drawdown lump sum death benefits (excluding funds put into drawdown prior to 6 April 2024)
- serious ill-health lump sums
- pension commencement lump sums (PCLSs)
- the tax-free elements of Uncrystallised funds pension lump sums (UFPLSs)

This is a combined allowance for both lifetime tax-free lump sums on retirement and tax-free lump sums on death. This means, in the event of the death of an individual, the amount their beneficiaries will be able to receive free of taxation as a lump sum from a registered pension scheme will be limited to £1,073,100 less any tax-free lump sums taken during their lifetime. Any excess over this amount will be subject to income tax for the recipient.



Aon plc (NYSE: AON) exists to shape decisions for the better — to protect and enrich the lives of people around the world. Through actionable analytic insight, globally integrated Risk Capital and Human Capital expertise, and locally relevant solutions, our colleagues provide clients in over 120 countries with the clarity and confidence to make better risk and people decisions that help protect and grow their businesses.

Follow Aon on [LinkedIn](#), [X](#), [Facebook](#) and [Instagram](#). Stay up-to-date by visiting Aon's [newsroom](#) and sign up for news alerts [here](#).

Copyright © 2025 Aon UK Limited All rights reserved www.aon.co.uk

Aon UK Limited is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales. No. 210725

Registered Office: The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AN.

This report and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent no part of this report should be reproduced, distributed or communicated to anyone else and, in providing this report, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this report.