

The Lifetime Allowance for 2023/24 onwards

This Factsheet provides an outline of the changes to the Lifetime Allowance announced in the Budget on 15 March 2023. It is not intended to be a comprehensive guide to the Lifetime Allowance and should be read alongside other information on the Lifetime Allowance.

Note also that other important changes to the pensions tax regime were announced at the Budget, not covered in this sheet.

Key points

- The Lifetime Allowance charge will not apply from 6 April 2023.
- The maximum level of tax-free cash for those without protections will be frozen at its current level of £268,275.

What is the Lifetime Allowance and how is it changing?

Under the tax rules before 6 April 2023, when a member starts* to draw benefits from a scheme, a Lifetime Allowance (LTA) Charge is incurred if the value of the benefits (using an HMRC measure) exceeds the member's remaining LTA. The level of the standard LTA for the 2022/23 tax year is £1,073,100. (**This is called "crystallising" and includes arranging a pension to start, funds being designated into a drawdown wrapper, or payment of certain lump sums.*)

From 6 April 2023, this LTA Charge will be abolished. Any benefits being "crystallised" in excess of the LTA will instead be subject to income tax on the excess at the recipient's marginal rate(s).

The LTA itself will not immediately disappear; it is only the LTA Charge that will be removed from 6 April 2023. The Government's intention is that the abolition of the LTA will take place during the 2024/25 tax year. In the meantime, the LTA framework remains in force and pension schemes will need to continue to operate LTA checks, issue LTA usage statements to members etc. (These checks are relevant for a range of purposes as the law currently stands.)

Is the maximum level of tax-free cash changing?

Under the tax rules before 6 April 2023, the total maximum level of tax-free cash an individual can take (sometimes referred to as "PCLS") is (broadly) restricted to 25% of their remaining LTA (and within that, there are rules of how much can be taken this way that typically depend on how much pension-type benefit is started alongside).

Whilst the LTA is being removed, the Government has said that the maximum level of tax-free cash will instead be frozen (for those without protections) at £268,275 (i.e. 25% of the current standard LTA). HMRC has [stated](#) that from 6 April 2023 "members with a protected right to a higher PCLS will continue to be able to access this right", but see below.

Details of how this will operate are not yet available (including how past and on-going drawings of benefit will use up this maximum, particularly after 2023/24).

There has been no change to the restriction that the maximum level of tax-free cash that can be taken from any pension scheme is usually 25% of the HMRC value of the benefits being crystallised in that pension scheme.

What if I have registered for one of the Lifetime Allowance protections?

When the current tax regime started in 2006, at each of the previous falls in the Lifetime Allowance, and in some other circumstances, individuals could apply for various forms of Lifetime Allowance protection which typically also gave scope for more tax-free cash. Whilst under the Government's proposals these protections will no longer have any use to protect against any LTA Charge from 6 April 2023, they will continue to be relevant to provide a higher cap on tax-free cash and certain lump sums on death and serious ill-health (see also "Material uncertainties" below).

HMRC has elaborated on two "vulnerable" protections: "*For members who hold a valid enhanced protection or any valid fixed protections, where this protection was applied for before 15 March 2023, and a certificate or reference number subsequently issued, from 6 April 2023 will be able to accrue new pension benefits, join new arrangements or transfer without losing this protection. They will also keep their entitlement to a higher PCLS.*" Taking one of these actions before 6 April 2023 will cause the vulnerable protections to be lost, which among other things would mean losing the enhanced tax-free cash scope. Protections applied for on or after 15 March 2023 continue to follow the old rules and so remain vulnerable – see the [HMRC Lifetime allowance guidance newsletter](#).

Material uncertainties

The above summaries are based on materials issued by the Government up to 27 March 2023. Whilst they confirm many details of the announced changes, there are a number of details which are still unknown or could be different, particularly whilst the legislation for these changes has not been confirmed. As such, the information in this note should be treated with caution.

The Government's stated intention is that the abolition of the LTA will take place during the 2024/25 tax year, but as yet no details are available. Immediately after the Budget, the Labour Party announced that it "*will reverse the changes to tax-free pension allowances*" and replace them with a "*targeted scheme*" for doctors, should it win the next general election. The combined impact is to create uncertainty for savers over the longer term.

These matters are complicated and if you think you may be impacted you should consider whether to seek professional advice from a tax or financial adviser.

Important information

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