

 **Information**

## Pensions Taxation – Impact of the budget changes on Lifetime Allowance

- From 6 April 2023 to 5 April 2024 the Lifetime Allowance threshold is reduced to NIL
- From 6 April 2024 the Lifetime Allowance is abolished
- The standard maximum tax free lump sum is restricted to £268,275
- The excess lump sum is taxed at a member's marginal tax rate
- The excess lump sum is treated as taxable income
- From 6 April 2023 the income at which the additional tax rate (40%) applies is reduced to £125,140

### Impact on pension benefits

#### Example 1

Simon retires 31 July 2023 from the 2015 Scheme on completion of 30 years' calendar length service. He has 29 years' service in the 1992 Scheme and is under age 55 so his 2015 pension benefits have been deferred	
Final Pensionable Pay	£40,000.00
Pensionable Service                      29 years	29/30 x 40/60
FPS 1992 Pension before commutation	£25,777.78p.a
FPS 1992 Pension after commutation	£19,333.34p.a
FPS 1992 Lump Sum	<b>£154,666.56</b>
Simon has not drawn any pension benefits previously and his FPS 1992 lump sum is under £268,275 so no additional tax is due	

## Example 2

Patricia retires 31 March 2024 from the 2015 Scheme on completion of 30 years' calendar length service. She has 29 years' service in the 1992 Scheme and is under age 55 so her 2015 pension benefits have been deferred		
Final Pensionable Pay		£85,000.00
Pensionable Service	29 years	29/30 x 40/60
FPS 1992 Pension before commutation		£54,777.78p.a
FPS 1992 Pension after commutation		£41,083.34p.a
FPS 1992 Lump Sum		£328,666.56
Patricia has not drawn any pension benefits previously, but the value of her FPS 1992 lump sum is greater than £268,275		
Tax charges are payable on the amount of lump sum in excess of £268,275		
£328,666.56 minus £268,275 = £60,391.56 = taxable lump sum		
Tax is due at Patricia's marginal tax rate		
Income - £85,000		
Pension Contributions - £15,000		
Taxable pay - £70,000		
Taxable lump sum - £60,391.56		
Total taxable income - £130,391.56		
Excess above £125,140.00 - £5,251.56 (taxed at 45%) = £2,363.20		
£60,391.56 minus £5,251.56 = £55,140 (taxed at 40%) = £22,056.00		
Total tax due = £24,419.20		
Lump sum payable to Patricia		
£328,666.56 less £24,419.20 = £304,247.36		
(Example based on a higher rate taxpayer at 45% but calculation will be based on your own marginal rate. Tax rates used are for illustration purposes only)		

The [rate of the tax you pay on pension savings above the lifetime allowance](#) depends on how the money is paid to you and when you took your pension savings.

If you took your pension on or after 6 April 2023, you'll pay [Income Tax](#) on some or all of the lump sum if it is more than 25% of the standard lifetime allowance.

If you hold lifetime allowance protection, this may [increase the amount of tax-free lump sum](#) you can take from your pension.