

Adviser Update

Changes to correct new pension rules

Although the new pension rules came in at the start of the tax year, there are a few areas where the legislation in Finance Act 2024 did not meet the policy intent when it received Royal Assent and passed into law.

HMRC used secondary legislation to amend Finance Act 2024 to correct the outstanding issues. These regulations have now passed into law, and the amended legislation came into force on 18 November, but is retrospective and applies from 6 April 2024.

Here's what the changes mean:

Scheme-specific lump sums (SSLS)

SSLS are now calculated at a level equivalent to that which would have been available prior to the lifetime allowance removal.

Lump sum allowance (LSA) is only used up as if 25% PCLS was taken (for example if SSLS was 30%, and £30,000 pension commencement lump sum (PCLS) is taken with £70,000 used to provide an income, then only £25,000 lump sum allowance would be used).

Enhanced and Primary Protection with protected lump sum

It's now possible to take full protected PCLS, rather than the PCLS being restricted to £375,000.

Transferring while holding Enhanced Protection

The lump sum death benefit allowance (LSDBA) is still limited to death benefits that could have been paid from the transferring arrangement on 5 April 2024, less any lump sum death benefits paid from the arrangement since that date. However, the LSDBA amount does now get carried across to the receiving scheme. Scheme administrators are required to pass on the value of death benefits payable as part of the transfer information.

Transferring while holding Enhanced Protection with protected lump sum

The protected LSA is still limited to the lump sum that could have been paid from the transferring arrangement on 5 April 2023, less any PCLS paid from the arrangement since that date. However, the protected lump sum can now be paid from the receiving scheme. Scheme administrators are required to pass on the value of the maximum lump sum payable as part of the transfer information.

Lump sum death benefits paid from funds crystallised prior to 6 April 2024

Funds that crystallised prior to 6 April 2024 are no longer limited by the LSDBA, so the amount of lump sum death benefit in relation to these funds is now unlimited.

The age 75 test is ignored when calculating available LSA and LSDBA

The standard transitional calculation now disregards lifetime allowance used by turning 75 with unused funds, or funds in drawdown, provided the member did not take any tax-free cash between their 75th birthday and 5 April 2024. This means that most over 75s will not need to apply for a transitional certificate.

Transitional certificates when PCLS has been taken after age 75

Where a client has taken PCLS after age 75 and they apply for a transitional certificate, the certificate will now take into account all PCLS taken, not just sums taken before age 75.

Some providers will have already been issuing certificates on this basis. If a certificate does not include PCLS taken after age 75, it will be incorrect. This will make the certificate invalid. If a PCLS has been taken on or after 6 April 2024 this is a RBCE so it would not be possible to apply for a new certificate after the event. It is also possible that the PCLS will have been overpaid and a tax charge will be payable.

Overseas transfer allowance (OTA)

The OTA is reduced by the lifetime allowance previously used. The amount crystallised by any drawdown funds between 6 April 2006 and 5 April 2024 is now excluded from the OTA test to prevent double counting.

Pensions that came into payment prior to 6 April 2006 reduce the OTA. They are included in the lifetime allowance previously used if the client took benefits between 6 April 2006 and 5 April 2024. They also now reduce the OTA even if the client didn't crystallise any funds between those dates.



This information is based on current understanding of pension tax rules. This is provided for information only; we do not provide advice.

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