



Tax-Free Allowances

April 2024

On 6 April 2024, the Lifetime Allowance which set a limit on how much you can earn or save across all your pensions during your working life before paying tax, was abolished. In its place, three new Tax-Free Allowances were introduced.

Lump Sum Allowance

This is how much money you can take tax-free. This is usually called ‘tax-free cash’ or a ‘Pension Commencement Lump Sum’.

You can access up to 25% of each pension you have. But, you have an overall allowance of £268,275. Each time you take tax-free cash from a pension, you use up part of this allowance.

If you take more than this, the rest is taxed as income.

If you take an Uncrystallised Funds Pension Lump Sum (UFPLS), the tax-free lump sum uses up part of your allowance.

But, you do not use up any allowance if you take a ‘small pot’ lump sum, a trivial commutation lump sum or a winding up lump sum, but you do need to have some Lump Sum Allowance left to be able to take these types of lump sum.

Lump Sum Death Benefit Allowance

This allowance is £1,073,100.

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Any lump sums which use up the Lump Sum Allowance also count towards this allowance. When you pass away, any lump sums paid to your beneficiaries use up your £1,073,100.

If you retire due to 'serious ill health' this uses up part of your allowance.

If you die before age 75, then these lump sum payments are tax-free. Anything over £1,073,100 is taxed as income. If you die after 75, all death lump sums are taxed as income.

Overseas Transfer Allowance

This is also £1,073,100.

If you want to move your pension from the UK to a pension scheme overseas, you can do this providing the overseas pension is a Qualifying Recognised Overseas Pension Scheme (QROPS).

If it is, you can move money tax-free up to a limit of £1,073,100.

If the amount you want to move is more than that, the excess is taxed at 25%.

This leaflet reflects our understanding of current legislation and practice. You should always talk to a financial or legal adviser if you need specific guidance or advice.