

Maximum Lump Sum Commutation

HMRC have restrictions on the amount of tax free pension commencement lump sum (PCLS) paid by a pension scheme, unless the individual has lump sum protection or other types of protection. The purpose of the tax free lump sum allowance test is to provide a lifetime cap on the payment of the PCLS the member may draw over their lifetime, in line with the lifetime allowance taxation cap. The PCLS is the **lower** of:

- 25% of the capital value to be paid (after the exchange of pension for additional lump sum and not the basic amounts); or
- 25% of the available standard life time allowance (LTA).

On 6 April 2014 the standard LTA changed from £1.5 to £1.25 million which means the maximum possible tax free PCLS has reduced from £375,000 to £312,500, unless the member has protection from HMRC.

The actual amount of tax free lump sum available at retirement will depend on the member's individual circumstances and may be:

- higher than £312,500 if they hold certain types of protection or have a protected lump sum from HMRC; or
- lower than £312,500 if they already have benefits in payment (either from the HSC Pension Scheme or another pension provider) which reduces their available LTA.

If the maximum lump sum after commutation exceeds £312,500, then not all the lump sum may be tax free.