

ILSA and ILSDBA: the two new pension allowances explained

Key takeaways

- ✓ There are two new allowances to replace the lifetime allowance
- ✓ One allowance limits tax-free payments whilst alive
- ✓ One allowance limits tax-free payments after death

1. Individual's Lump Sum Allowance (ILSA)

This allowance is a limit on how much money can be taken tax-free from your pension whilst alive (ignoring pension income). The standard allowance is £268,275. The allowance is modified by different forms of protection.

What counts toward this allowance is the tax-free portion of the following lump sums:

- ▶ Pension commencement lump sum
- ▶ Uncrystallised funds pension lump sum
- ▶ Stand-alone lump sums
- ▶ Deemed lump sum connected to a Pre A-day pension

Each time one of these lump sums is taken it will use up some of the ILSA until there is no ILSA remaining.

2. Individual's Lump Sum and Death Benefit Allowance (ILSDBA)

This allowance is a limit on how much money can be taken tax-free as a lump sum(s) by beneficiaries upon death of the pension owner.

The standard allowance is £1,073,100. The allowance is modified by different forms of protection.

What counts toward this allowance is the tax-free portion of the following lump sums:

- ▶ Pension commencement lump sum
- ▶ Uncrystallised funds pension lump sum
- ▶ Stand-alone lump sums
- ▶ Deemed lump sum connected to a Pre A-day pension
- ▶ Serious ill health lump sum
- ▶ Pension protection lump sum death benefit
- ▶ Annuity protection lump sum death benefit
- ▶ Uncrystallised funds lump sum death benefit
- ▶ Defined benefit lump sum death benefit
- ▶ Drawdown pension fund lump sum death benefit
- ▶ Flexi-access drawdown lump sum death benefit

Each time one of these lump sums is taken it will use up some of the ILSDBA until there is no ILSDBA remaining.

Tax-free maximums for lump sums

Although there is an overall limit to how much can be taken tax-free whilst alive and after death, each type of lump sum payment has a maximum amount that can be paid tax free. This is called the permitted maximum. Most of the time the permitted maximum will reference remaining ILSA and ILSDBA but not always (normally where there is a form of protection). So it is important to make sure you are aware of the rules for the permitted maximum for each type of lump sum.

Don't stay in the dark. Visit our LTA abolition hub

There is a huge amount of detail to understand ahead of these changes. Our LTA Hub is here to help you. In addition to our must attend webinar, you'll find a range of support articles to help you understand what it means for you and your clients.



Table of permitted maximums

Our table lays out how ILSA and ILSDBA are modified when a member has a form of lifetime allowance protection.

