

## NHS Pensions - Maximum lump sum commutation

HMRC rules restrict the amount of tax free pension commencement lump sum (PCLS) that can be paid, unless the individual has been granted lump sum protection or other types of protection by HMRC. The purpose of the tax free lump sum allowance test is to cap the amount of the PCLS the individual may draw over their lifetime, in line with the lifetime allowance taxation cap. The PCLS is normally the **lower** of:

- 25% of the capital value of the benefits to be paid (after any exchange of pension for additional lump sum and not the basic amounts); or
- 25% of the individual's available standard Lifetime Allowance (LTA).

Example:

In the tax year 2017/18 the Lifetime Allowance was £1million and therefore the maximum possible tax free lump sum that can be taken was normally limited to £250,000.

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

- higher if they hold certain types of HMRC protection; or
- lower if they already have benefits in payment (either from the NHS Pension Scheme or another pension provider) which reduces their available Lifetime Allowance.

The actual amount of tax free lump sum that can be paid will not be known until retirement.