EXPLANATORY MEMORANDUM TO

THE PENSIONS (ABOLITION OF LIFETIME ALLOWANCE CHARGE ETC) REGULATIONS 2026

2026 No. [XXXX]

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 Torsten Bell, Minister for Pensions at HM Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Helen Page, Deputy Director for Pensions, Individuals Policy Directorate at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Catherine Batey at HMRC can be contacted by email at the following address with any queries regarding the instrument: pensions.policy@hmrc.gov.uk. Alternatively, the department can be contacted by telephone: 03000 512336.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument introduces various technical amendments which are required following the abolition of the lifetime allowance, ensuring that the legislation accurately delivers the intended tax position.

4.2 This instrument ensures that all taxpayers will be subject to the same rules, as the legislation will have retrospective effect back to 6 April 2024, where required, to reflect the date the lifetime allowance was abolished.

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) of which the instrument forms part of the law) is the United Kingdom.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The lifetime allowance was a mechanism for limiting tax-favoured pension savings in registered pension schemes. It was the maximum amount of tax-relieved pension savings an individual could benefit from over the course of their lifetime.

5.2 At Spring Budget 2023, the Government announced that it would abolish the lifetime allowance. This was intended to incentivise those considering retirement to remain in employment and to encourage those who had already left the workplace to return. The Finance (No.2) Act 2023 removed the lifetime allowance charge and delivered some changes to support the removal of the charge.

5.3 Finance Act 2024 provided further changes to remove the lifetime allowance from legislation with effect from 6 April 2024. The changes also clarified the tax treatment of pension savings and introduced new allowances to ensure that individuals would not be able to receive unlimited tax-free lump sums from pension savings which had already benefited from tax relief.

5.4 The Pensions (Abolition of Lifetime Allowance Charge etc) Regulations 2024[1] made technical and consequential provisions to make the pensions tax regime operate correctly following the removal of the lifetime allowance.

5.5 Since this legislation was enacted, HMRC has identified further technical amendments necessary to ensure the correct operation of the pensions tax regime following the abolition of the lifetime allowance. The Pensions (Abolition of Lifetime Allowance Charge etc) (No 2) & (No 3) Regulations 2024[2] made technical and consequential amendments to make the pensions tax regime operate correctly following the removal of the lifetime allowance.

5.6 HMRC has identified a final set of technical amendments which are necessary to ensure the correct operation of the pensions tax regime following the abolition of the lifetime allowance.

5.7 This instrument will affect all individuals affected by the removal of the lifetime allowance. It will ensure all individuals are in the correct tax position and the legislation works as intended.

What was the previous policy, how is this different?

5.8 The lifetime allowance was introduced in 2006 to limit the amount of tax-relieved pension savings an individual could benefit from over their lifetime. Individuals could contribute to their pension over this limit, but they were subject to a tax charge to broadly recover any tax relief given on any amounts over this limit.

5.9 The Finance Act 2024 removed the lifetime allowance limit and the associated tax charge. It introduced two new allowances that were needed, as a consequence of removing the lifetime allowance, to restrict tax-free elements of lump sums and lump sum death benefits. Most lump sums that do not exceed these allowances will be exempt from tax. The element of lump sums that exceed these allowances will be taxable at the individual's marginal rate.

5.10 The Finance Act 2024 introduced an overseas transfer allowance. This restricts the tax-free element of transfers to qualifying recognised overseas pension schemes.

5.11 Finance Act 2024 contains approximately 100 pages of legislation required to abolish the lifetime allowance. This instrument refines and supplements that legislation and makes consequential changes to ensure the pensions tax regime operates as intended.

5.12 This instrument amends the Income Tax (Earnings and Pensions) Act 2003, around the tax treatment of lump sums paid from overseas pension schemes to UK residents. It requires that, for the purposes of the notional tests both the full lump sum allowance

[1] S.I. 2024/356
[2] S.I. 2024/1012 and S.I. 2024/1167

(LSA) and the full lump sum and death benefit allowance (LSDBA) are assumed to be available. It also ensures that where a lump sum has been paid by a non UK scheme, that payment is treated as a relevant lump sum for the purposes of a member's payment charges. It also introduces a new provision to determine the order in which multiple relevant benefit crystallisation events occurring on the same day are treated for calculating their lump sum allowance, and that the individual's decision must be consistent with their LSA ordering.

5.13 This instrument amends Schedule 29 to the Finance Act 2004. It expands the definition of relevant crystallised pension rights to include amounts transferred from UK registered pension schemes to Qualifying Recognised Overseas Pension Scheme (QROPS) and ensures that certain lump sums are included in the calculation. It also specifies that when calculating the permitted maximum pension commencement lump sum (PCLS), the unenhanced LSDBA is used, to prevent unintended increases. It also removes PCLS related exclusions from populating annuity protection lumps sum death benefit (APLSDB).

5.14 This instrument also amends Schedule 36 to the Finance Act 2004, to remove the step that enhances the LSA for individuals with pre commencement pension credits, ensuring the LSDBA is only increased by enhancement factors. It amends the calculation of the permitted maximum PCLS for those with enhanced protection and lump sum protection, which removes the risk of double drawdown or disqualifying divorce credits.

5.15 This instrument also amends Schedule 36 to the Finance Act 2004 to redefine 'F' in the PCLS formula to become a fixed figure of £1,073,100 or where a relevant protection provision applies, the members enhanced LSDBA applies, avoiding protective lump sum entitlement erosion. It also references the meaning of 'relevant protection provision'. It also corrects the terminology in the calculation of permitted maximum PCLS replacing "collective money purchase scheme" with "collective money purchase arrangement".

5.16 This instrument also amends Schedule 36 to the Finance Act 2004, to list the relevant protection provisions (fixed and individual protection regimes) that determine when the enhanced LSDBA applies in the PCLS formula, ensuring the correct application of protections.

5.17 This instrument also amends the Income Tax Act 2007, removing the reference to section 214 of Finance Act 2004 from the list of additional tax provisions.

5.18 This instrument amends the Finance Act 2014 to amend the wording in the "individual protection 2014" transitional provisions to ensure the correct application of the protection to all relevant sub-paragraphs, not just sub-paragraph (2). The instrument also amends the wording in "individual protection 2016" for the same reason.

5.19 This instrument amends the Finance Act 2024 to exclude a pension transferred overseas with enhanced protection (EP) from the LSDBA transitional calculation, to avoid double counting. It also changes the disregard for BCE1 (drawdown designation) in the calculation of the overseas transfer allowance (OTA) from a fixed monetary amount to a percentage-based formula, aligning with the LTA at the time of crystallisation and removing inequity. The instrument also extends the transitional tax-free amount certificate (TTFAC) notification requirement to cover new pensions schemes joined after the certificate is issued. And the instrument alters the disregard for age-75 crystallisations in the transitional calculation for available LSA/LSDBA

from a fixed amount to a percentage of the LTA at the time, removing disparities based on when age 75 was reached.

5.20 This instrument amends the Pension Sharing (Pension Credit Benefit) Regulations 2000 to make minor and consequential changes following the removal of the lifetime allowance, so that the legislation works as intended.

5.21 This instrument amends the Registered Pension Schemes (Accounting and Assessment) Regulations 2005 to add a reference to flexi access drawdown lump sums death benefits in the list of assessments, which will ensure correct tax treatment and reporting.

5.22 This instrument amends the Registered Pension Schemes (Provision of Information) Regulations 2006 by introducing a requirement for the transferring scheme administrator to provide the recipient scheme with a statement of the 5 April 2023 maximum for stand-alone lump sums (SALS), within three months of a recognised transfer, ensuring correct calculation of entitlements.

5.23 This instrument amends the Registered Pension Schemes and Overseas Pension Schemes (Electronic Communication of Returns and Information) Regulations 2006, to expand the list of events that must be reported to HMRC by electronic means, supporting digital reporting.

5.24 This instrument amends the Taxation of Pension Schemes (Transitional Provisions) Order 2006 by amending the calculation of permitted maximum Scheme Specific Lump Sum (SSLS) to explicitly include trivial commutation lump sums (TCLS), aligning with the previous transitional provisions and ensuring consistency.

5.25 This instrument amends the Taxation of Pension Schemes (Transitional Provisions) Order 2006 to introduce a technical fix to the calculation of the stand-alone lump sum maximum, clarify the formula and ensure correct application to both PCLS and SALS.

5.26 This instrument amends the Financial Assistance Scheme (Tax) Regulations 2010 by amending the lump sum payments by the Financial Assistance Scheme (FAS). It also amends the transitional provisions lump sums by ensuring that certain lump sums paid are treated correctly for tax purposes and calculating tax free amounts. The instrument also amends the Finance Act 2024 to ensure scheme administrator is amended to certification administrator to cover being issued by other providers.

6. Legislative and Legal Context

How has the law changed?

6.1 In the United Kingdom, before 6 April 2024, there was no limit on the amount of pension savings that an individual could have, but there were limits on the amount of tax relief available, provided for in Part 4 of the Finance Act 2004.

6.2 The lifetime allowance set the maximum value of tax relieved pension savings that an individual could benefit from over their lifetime. Where an individual exceeded this limit, a tax charge arose on the excess. Sections 214 to 226 of the Finance Act 2004 provided for the lifetime allowance.

6.3 Finance (No.2) Act 2023 abolished the lifetime allowance tax charge.

6.4 Finance Act 2024 removed the lifetime allowance from Finance Act 2004 and updated the pensions tax regime to operate after its removal, including providing for the new allowances. Section 14 and Schedule 9 amend Part 9, including introducing Chapter

15A, to Part 9 of the Income Tax (Earnings and Pensions) Act 2003[3] in relation to the taxation of lump sums under registered pension schemes and certain non-UK unregistered pension schemes.

6.5 Paragraph 134(2) of Schedule 9 to the Finance Act 2024 provides a regulation-making power that permits the amendment of primary legislation. This instrument uses this power to amend Schedule 29 and Schedule 36 to the Finance Act 2004.

6.6 This instrument will have effect from 6 April 2024 with the exception of those amendments contained in paragraph 5.22, which will have effect from 29 June 2026.

Why was this approach taken to change the law?

6.7 Finance Act 2024 contained 100 pages of legislation to abolish the lifetime allowance. Further changes are required to refine and supplement that legislation and allow the pensions tax regime to operate as intended from 6 April 2024. This instrument is made under the power provided in the Finance Act 2024 to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 Since the abolition of the lifetime allowance was announced, HMRC has worked with pension industry representatives to develop and test the legislation needed for the abolition to work as intended, across all aspects of the pensions tax regime. As with previous related regulatory changes, a draft of the instrument has been shared with those industry representatives for a short informal consultation. HMRC received 6 responses. The responses highlighted a few necessary minor amendments, which have been addressed in the regulations. HMRC has not consulted directly with pension scheme members. That contact was made indirectly through these industry representatives.

7.2 HMRC continues to work with pension industry representatives to help them fully understand their obligations for a smooth transition following the abolition of the lifetime allowance and the introduction of the new lump sum and lump sum death benefit allowances, and international related aspects.

8. Applicable Guidance

8.1 Existing guidance in the HMRC Pensions Tax Manual[4] and the GOV.UK[5] website will be updated to reflect the changes provided for by this instrument. Guidance will be published as soon as possible after the instrument is laid.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note[6] covering the key impacts of the abolition of the lifetime allowance was published on the GOV.UK website on 22 November 2023.

[3] ITEPA 2003
[4] HMRC Pensions Tax Manual: www.gov.uk/hmrc-internal-manuals/pensions-tax-manual
[5] GOV.UK Pension Scheme Guidance: www.gov.uk/money/pension-scheme-administration
[6] Tax Information and Impact Note: www.gov.uk/government/publications/abolition-of-the-lifetime-allowance-from-6-april-2024

Impact on businesses, charities and voluntary bodies

9.2 HMRC do not expect a significant, impact on business, charities or voluntary bodies. Any impact will be from the changes provided for in the Finance Act 2024 rather than this instrument.

9.3 This instrument does not impact small or micro businesses.

9.4 HMRC do not expect a significant impact on the public sector. Any impact will be from the changes provided for in the Finance Act 2024 rather than this instrument.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 This legislation will be monitored through communications with pension industry representatives. This will include the Pension Stakeholder Forum and regular Pension Scheme Newsletters.

10.2 The instrument does not include a statutory review clause.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This legislation is connected to the lifetime allowance abolition provisions in section 14 of, and Schedule 9 to, Finance Act 2024. This instrument is further to The Pensions (Abolition of Lifetime Allowance Charge etc) Regulations 2024[7].

11.2 This legislation is also connected to The Pensions (Abolition of Lifetime Allowance Charge etc) (No.2) Regulations 2024 and The Pensions (Abolition of Lifetime Allowance Charge etc) (No.3) Regulations 2024[8]. The No.2 and No.3 instruments, and this one, provide for technical changes to legislation following the abolition of the lifetime allowance.

11.3 This instrument is made under paragraph 134(3) of Schedule 9 to the Finance Act 2024, which requires the regulations to be subject to the affirmative procedure. The amendments made by these regulations may, in some cases, increase a person's liability to income tax.

11.4 The vires in paragraph 134(2) of Schedule 9 to the Finance Act 2024 were amended by the Finance Act 2026. These amendments allow regulations to be made (no later than 30 June 2026) which have retrospective effect from 6 April 2024, and which may increase a person's liability to tax.

12. European Convention on Human Rights

12.1 The Minister for Pensions has made the following statement regarding Human Rights:

"In my view the provisions of The Pensions (Abolition of Lifetime Allowance Charge etc) Regulations 2026 are compatible with the Convention rights.".

[7] S.I. 2024/356
[8] S.I. 2024/1012 and S.I. 2024/1167

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").