



Taxing flexibly accessed pension benefits

Many people save into a pension scheme and then use this to buy an annuity or monthly income. However, if you are 55 or over you have more options to take the money flexibly.

Pension flexibility allows those over 55 to either withdraw all of the money at once – including the tax free element – or to take smaller lump sums over several tax years until the pot is empty.

But that leaves a big question – how much tax will you pay and how is it taxed?

This can be quite complicated, so here goes!

Taking all of your pension pot

If you want to take all of your money from your pension pot, the first 25% of this will be tax free and the remaining balance will be taxable. To collect the tax due, the emergency code will tax the following:

- The first £1,048 will be taxed at 0%
- The next £3,142 will be taxed at 20%
- The next £9,358 will be taxed at 40%
- If your taxable lump sum exceeds £13,548, any further tax will be deducted at 45%

At this point you might be stunned at how much tax has been taken out of your hard earned pension, but please keep in mind that the vast majority of people who access their pension pots in this way will have paid too much tax.

Tax is overpaid because the emergency code works on 1/12th of your annual allowances and assumed you get this inflated income each month. However, when you calculate it annually it looks a little different:

- Annual income between £12,571 and £37,700 is taxable at 20%
- The next £112,300 is taxed at 40%

Having an income of more than £100,000 means that for every £2 over that you go you will lose £1 of your personal allowance, and anything else is taxed at 45%.

The actual tax due depends on the amount you take out of your pot and any other taxable income within the tax year concerned.

Claiming the tax back

The good news is that if you withdraw all of your money from your pension pot, you can claim the tax back immediately by completing form P53Z. This form can be downloaded from HMRC'S website www.gov.uk

There are options to complete this form online or to print off a paper copy and post it. You can also call HMRC on 0300 200 3300 to request a paper form. Your pension provider will have sent you a



P45 and you will need to send this to HMRC with form P53Z. Please take a copy of the P45 before sending it to HMRC.

If you are in receipt of the Marriage Allowance and taking the lump sum puts you into the higher rate tax band, then this allowance no longer applies for the tax year concerned. It is only given to basic rate tax payers and HMRC should take this into account when calculating and processing your refund.

If you have another regular source of PAYE income, then your tax code will need to have the Marriage Allowance removed. If this does not happen automatically, then do get in touch with HMRC so they can correct the code.

Taking part of your pension pot

Choosing to take regular or ad hoc withdrawals instead of taking everything at once gives you a choice as to how the 25% tax free element is taken.

It is possible to withdraw the entire 25% tax free element in one go or to take 25% of each withdrawal tax free.

The first time the pot is accessed the same emergency code is used, this is explained in the above 'taking all of your pension pot' section. If a tax refund is due because of this and **there is no intention to access the pot again during the tax year**, form P55 can be completed and sent to HMRC. This form can be downloaded from HMRC'S website www.gov.uk

If the pot is accessed again during the same tax year, the pension provider will inform HMRC and a tax code will be issued for future withdrawals. If it turns out you are entitled to a refund, the code should result in you obtaining your refund via these payments or at the end of the tax year.

If you are on a low income, you can contact one of the tax charities for help: Tax Help for Older People, 01308 488066 or, if you are under 55 years old, TaxAid, 0345 120 3779.

Tax Help for Older People Registered Charity no 1102276 (Scotland no SC045819) & TaxAid Registered Charity no.1062852 offering free tax advice to people on a low income who cannot afford professional help.