HARGREAVES LANSDOWN

HOW WILL MY PENSION BE TAXED?

Tax-free cash
You can usually take up to 25% of your pension tax free. If you use your whole pension to buy an annuity or move into drawdown you will be paid the tax-free cash straight away, you can't take it later.

You don't have to use your full pension for drawdown or to buy an annuity though, that's up to you. For example, if you decide to move part of your pension into drawdown then you can take up to 25% tax free from that portion.

If you choose to take lump sum withdrawals (UFPLS) then 25% of each lump sum is usually tax free.

Taxable withdrawals
After you take the tax-free element of your pension, any remaining funds are subject to income tax. For drawdown, this means any further withdrawals will be subject to income tax at the point the money is withdrawn. If you buy an annuity then the income from that annuity is taxable. With a lump sum withdrawal (UFPLS) 75% of each withdrawal is normally subject to income tax. Income tax will be deducted via Pay As You Earn (PAYE). This is similar to how your employer would have deducted tax. However, no National Insurance is taken from pension payments, whatever your age.

The income you take will be added to any other income you receive in that tax year, so taking large withdrawals could push you into a higher tax bracket.

To find out more go to **www.gov.uk/income-tax**

Your tax code
HMRC will give your pension provider a tax code which reflects your personal tax position. Your tax code tells the pension provider how much tax to deduct from each income payment, including how much can be paid tax free. Where the tax code is a number followed by a letter, the number indicates the amount of income your pension provider can pay without deducting tax, per tax year.

If you have more than one source of taxable income, e.g. two pensions, you might have different tax codes with each provider.

More details can be found about tax codes at **www.gov.uk/tax-codes**

IMPORTANT INFORMATION
This factsheet is for your information only and isn't personal advice. It is based on our understanding of pension and tax rules as at 10 March 2025. All figures apply to the 2025/26 tax year. It is written for investors who prefer to make their own investment decisions, without personal advice. Pension and tax rules can and do change and benefits depend on individual circumstances.

What you do with your pension is an important decision. We strongly recommend you understand your options and check your chosen option is right for your circumstances. Take advice if you're not sure.

The government provides a free and impartial service to help you understand your retirement options. Go to **www.hl.co.uk/pension-wise** to find out more.

We offer a range of information and support to help you plan your own finances. We also have a team of Financial Advisers who can help you achieve your goals. Our flexible approach means you only pay for the advice you need.

Emergency tax
The emergency tax code is a temporary code which will be used when you start to take a taxable income from your pension, (unless you have a valid P45).

The tax code used for emergency tax in the 2025/26 tax year is 1257L. This code assumes you can receive £12,570 a year without deduction of tax, broken down over the year into 12 equal chunks. It means the first £1,048 (i.e. £12,570 divided by 12) of any taxable payment can be paid tax free; the next £3,142 will be taxed at 20% and the next £7,286 taxed at 40%. Any amount in excess of £11,476 would be taxed at 45%.

This code doesn't take other income into account and assumes you will receive the same amount each month, so it's likely to result in the incorrect amount of tax being deducted initially.

This factsheet briefly explains how tax is deducted from personal pensions. It is not personal advice. You can also find out more information about tax on pensions at **www.pensionwise.gov.uk/en/tax**

This code will be used until HMRC provide us with your personal tax code. HMRC may update this tax code as your tax circumstances change. If you withdraw further payments in the same tax year they should include any over or underpayment of tax to date and may result in tax being repaid.

Our emergency tax calculator estimates how much tax might be deducted from your pension withdrawals at the emergency rate. Go to **www.hl.co.uk/emergency-tax**

Your tax free Personal Allowance
For most people with an income under £100,000 the standard Personal Allowance is £12,570 (for the tax year 2025/26). This is the amount of income you don't have to pay tax on.

However, this doesn't mean that you won't pay any tax if you request a payment of this amount or less. This is because tax codes are typically applied on a cumulative basis (see 'Cumulative tax codes' to the right), therefore the full year's worth of tax free allowance might not be given in a single payment. The Personal Allowance also reduces by £1 for every £2 of income above £100,000, reducing to zero for income of £125,140 or more. See more on personal allowances at: **www.hl.co.uk/tools/tax-facts**

Tax months
When taking a taxable withdrawal from your pension, bear in mind that the tax year runs from 6 April to 5 April in the following year. Therefore a 'tax month' starts on 6th of one month and ends on 5th of the next.

Cumulative tax codes
Tax codes are typically applied on a cumulative basis. This means more of your Personal Allowance becomes available as we progress through the year. The tax deducted from each income payment is determined by any tax you've already paid in the tax year, and how much of your tax-free personal allowance has already been used.

So if a payment is made on 28 May – i.e. in the second tax month of the tax year – the tax deducted will take into account the income paid between 6 April and 28 May as well as 2/12ths of the tax allowances and income bands indicated by your tax code. If a payment is made on 28 March – in the 12th tax month of the tax year – the tax deducted will be based on all the income paid in the tax year and 12/12ths (100%) of your allocated tax-free allowance and tax bands. In practice regular payments should have equal tax taken off, but those taking single or irregular payments early in the tax year could initially be over-taxed.

Month 1/non-cumulative tax codes
In these cases each payment is treated as if it is made in the first month of the tax year when 1/12th of your Personal Allowance and tax bands are available.

Any previous pay and tax details aren't taken into account.

Over or under paid tax
If you over (or under) pay tax, this will need to be settled with HMRC. You can either complete a tax return via self-assessment each year to claim a refund/pay the additional tax you owe. Or you can wait for HMRC to contact you at the end of the tax year to arrange the refund or payment. If you wish to reclaim any tax before the end of the tax year, you should contact HMRC directly.

If you decide to reclaim any overpaid tax you can ask HMRC for one of the following forms;

- ✓ **P50Z form** – If you have withdrawn your entire pension and have no other income.
- ✓ **P53Z form** – If you have withdrawn your entire pension and have other sources of income.
- ✓ **P55 form** – If you have not withdrawn your entire pension and won't withdraw further pension income in the current tax year.

For further information you can visit **www.gov.uk/claim-tax-refund**

Or you can contact your local tax office.

Already receiving pension income
If you have already received an income from your HL SIPP, HMRC should have provided us with a personal tax code. We will deduct income tax in accordance with this tax code, or the tax code on your P45.

If HMRC haven't confirmed an updated tax code, or you don't have a valid P45, we will use the emergency tax code until HMRC tell us otherwise. We cannot change this tax code unless HMRC tell us to do so.

You can contact HMRC directly and request that they send an updated tax code if appropriate. You will need to inform HMRC of your Payroll ID, and Hargreaves Lansdown's Pay as you Earn tax reference (034/NZ31298). You can get these details by emailing us on **pension_answers@hl.co.uk** or if you need any more help just give us a call.

3 NEW ALLOWANCES
There used to be a limit to the total value of pension benefits you could build up throughout your lifetime and generally receive up to 25% tax free. This limit was known as the lifetime allowance and was set at £1,073,100 for most people. However, from 6 April 2024, the lifetime allowance was abolished and replaced with three new allowances. These are the lump sum allowance, the lump sum and death benefit allowance, and the overseas transfer allowance.

The lump sum allowance normally provides an upper limit to the tax-free amount of certain lump sums that can be taken across an individual's pensions. This allowance is £268,275 for most people. Payments that use up this allowance include pension commencement lump sums (PCLS) and the tax-free element of uncrystallised funds pension lump sums (UFPLS).

The lump sum and death benefit allowance applies to payments that use up the lump sum allowance as well as the tax-free element of serious ill health lump sums and certain non-taxable lump sum death benefits. For most people, this allowance will be £1,073,100.

The overseas transfer allowance provides a limit on transfers to Qualified Recognised Overseas Pension Schemes (QROPS). This allowance is £1,073,100 for most people. Any value that exceeds this allowance will normally be subject to the Overseas Transfer Charge (OTC).

To find out more about the new allowances, including how you may be affected if you used lifetime allowance under the previous rules, visit **www.hl.co.uk/pensions/contributions/new-lump-sum-allowance**

SOME EXAMPLES OF EMERGENCY TAX AND ONE-OFF WITHDRAWALS

With drawdown, the tax-free cash required (up to 25%) is taken at the start, so all subsequent income is taxable. With an UFPLS (Uncrystallised Funds Pension Lump Sum), 25% of each lump sum will normally be tax free and the rest is taxable. Remember, under emergency tax the tax on a payment will be calculated using 1/12th of the allowances available, any previous pay and tax details are not taken into account.

	Drawdown (tax-free cash already taken)		UFPLS (25% of lump sum paid tax free)	
Single withdrawal	Tax deducted	Payment to you	Tax deducted	Payment to you
£1,000	£0	£1,000	£0	£1,000
£5,000	£953	£4,047	£541	£4,459
£10,000	£2,953	£7,047	£1,953	£8,047
£25,000	£9,629	£15,371	£6,816	£18,184
£50,000	£20,879	£29,121	£15,254	£34,746

Note: the figures shown above are approximate and have been rounded to the nearest pound.

APPLYING TO TAKE BENEFITS FROM YOUR SIPP?

If you have a valid P45 for the current tax year please send us the new employer sections (parts 2 and 3). This will help us to apply the correct tax code to your income. If you don't have a current P45 this won't delay income payments, but will mean we may have to apply an emergency tax code to your first taxable income withdrawal.