

# Pension Payments Guide

## Overview

This guide provides basic information about pension payments for members of our SIPPs and should be read in conjunction with the SIPP Information Booklet Member Benefits.

**This guide is based on our understanding of current legislation and HM Revenue & Customs (HMRC) practice and every care has been taken to ensure that it is correct. It is issued by DP Pensions Ltd for use by our SIPP clients and no responsibility to any third party is accepted if the information in this guide is used for any other purpose. The legislation and HMRC practice may change in the future.**

## Frequency of payments

We operate a payroll system which pays pension under PAYE on the last day of each month. We will require a written instruction and cleared funds to be in your SIPP's bank account by the 20<sup>th</sup> of the month if you would like us to commence or change your pension payments. You can elect to receive your pension monthly, quarterly, half yearly and annually; or you could elect to receive your pension payments on an ad hoc basis. You can change the level and timing of your pension payments at any time by confirming this to us in writing (subject to any maximum limit that may apply).

## How are pension payments taxed

As we operate under a payroll system which pays pension under PAYE we will transfer the gross pension payment that you have requested from your SIPP's bank account at the end of the month and transfer it to a dedicated SIPP PAYE account. We will deduct the level of PAYE required by HMRC and the net payment will be paid to you on the last day of the month. The PAYE deducted will be transferred to HMRC.

If we have received a tax coding notice from HMRC we will use this tax code when determining the level of tax to be paid to HMRC. We may have received a P45 if you have transferred in to your SIPP a pension plan that was already in drawdown, if this is the case we will apply the tax code on the P45 when determining the net level of pension to be paid.

If we do not have a tax coding notice (this could be due to this being the first time you have drawn a pension payment from your scheme) then your pension will be taxed using a temporary rate called emergency rate. An emergency tax code will show on your payslip as OT.

An emergency tax code can only be applied until HMRC issue you and us with a tax code and a OT tax code means that we cannot take into account any Personal Allowance you are entitled to until your tax code is updated.

We will issue you with a pension payment advice slip confirming your gross pension, tax and net pension shortly before each pension payment is made. We will also issue to you annually a

P60 which confirms the pension and tax that you have been paid in each tax year. This will be sent to you shortly after the end of each tax year.

Please note, income that is taken from your pension fund is added to any other income you receive and this determines what rate of tax you pay. It follows therefore, that the more income you take, particularly if taken in one payment from your pension rather than in stages, the higher your income will be and therefore a potentially higher rate of tax paid, especially if you cross into a higher tax band.

## Tax Codes

Tax codes are operated either on a cumulative or non cumulative basis.

### Cumulative Tax Codes

A cumulative tax code means that the tax you will pay will be recalculated from April, tax period 1, to the current tax period, every time it is paid. Any income paid previously in the tax year will be taken into consideration.

For example if your pension income is to be paid in June which is tax period 3 you would be entitled to 3/12ths of your tax free personal allowance and this is shown in practice below:

You have a tax code in 2017/18 of 1150L (this is a cumulative tax code) and you are paid £1,000 gross per month. You usually multiply the number in the tax code by 10 to get the total amount of income that can be earned before tax so in this example £11,500 before tax.

Month 1 April 2017: £1,000 gross pension payment. 1/12th of your personal allowance can be taken into account which is £958.33 ( $£11,500 / 12$ ) Tax is due on the balance of £41.67 ( $£1,000 - £958.33$ )

You are a basic rate tax payer at 20% so tax is deducted of £8.33 ( $£41.67 \times 20\%$ )

Month 2 May 2017: £1,000 gross pension payment. 2/12ths of your personal allowance can be taken into account which is £1,916.66. Tax is due on the balance of £83.34 ( $£2,000 - £1,916.66$ ) which is £16.67. Tax of £8.33 has already been paid in month 1 leaving tax due of £8.34

Month 3 June 2017: £1,000 gross pension payment. 3/12ths of your personal allowance can be taken into account which is £2,874.99. Tax is due on the balance of £125.01 ( $£3,000 - £2,874.99$ ) which is £25.00. Tax of £16.67 has already been paid for month 1 and 2 leaving tax due of £8.33)

Another example detailed below is based on the same tax code of 1150L but you elect to receive an ad hoc lump sum payment of £30,000 gross in June.

3/12ths of your personal allowance can be taken into account which is £2,874.99. Tax is due on the balance £27,125.01 ( $£30,000 - £2,874.99$ ). However you are not taxed at 20% on this balance but tax is calculated on the assumption that you will continue to receive this level of

income for the rest of the tax year. The tax payable amounts to £9,173.80. It is likely that you end up being over taxed which is reclaimable (see below)

Please note that the values stated in the example above are for tax code 1150L only with you being a basic rate tax payer with no other source of income.

### **Non Cumulative Tax Codes**

A non cumulative tax code is signified by an 'x' or 'wk1/mth1' following the code. The tax for a non cumulative basis is worked out purely on the taxable pay for each individual pay period, each payday is treated as if it is the first week or month of the tax year.

For example if your pension income is to be paid in June which is tax period 3 (April is tax period 1) you would only be entitled to 1/12th of your tax free personal allowance not 3/12ths.

### **What happens if I have underpaid or overpaid tax?**

If you are taking regular pension payments from your SIPP throughout the year and we have to apply an emergency tax code for your first payment, we will then receive a tax code for you so that the subsequent payments are paid at the correct rate, previous tax paid is taken into account.

If you have closed your SIPP you can claim any overpaid tax back in the same year and this can be obtained by sending to HMRC your P45, along with either of the following forms which are currently only available online:

P50Z – if you have no other PAYE or pension income (other than the state pension)  
P53Z – if you have other employments or pensions

If you have flexibly accessed your pension in the tax year, have a cumulative tax code and believe you have paid too much tax you have the following options:

- You can wait until the end of the tax year when HMRC reconcile their records and make any repayment owed through the PAYE process (you must still be an active member of your SIPP for this to be an option)
- You can inform us that you will not be requesting any further payments from your scheme in the tax year and we can apply a £0 payment for subsequent months in the tax year to reclaim the tax due on a monthly basis
- You can complete form P55 further details can be found at <https://www.gov.uk/government/publications/flexibly-accessed-pension-payment-repayment-claim-tax-year-p55>

HMRC have confirmed that form P55 can also be used to claim an in-year repayment, regardless of whether an individual intends to take more than one pension flexibility payment in a year in respect of the same pension scheme. If HMRC receive a subsequent P55 claim form in respect of the same individual in that tax year it will be processed taking into account any repayment that has already been made.

## How can I ensure that the correct tax code is applied?

You can contact HMRC and ask them to send us a tax code. Should you wish to do this please let us know and we will provide you with our PAYE reference number. We are unable to contact HMRC on your behalf and we must receive the tax code from HMRC.

Further details about when to tell HMRC about a change to your personal details which may affect your taxable income can be found at <https://www.gov.uk/tell-hmrc-change-of-details/income-changes>

## Tax Treatment on UK income and living abroad

If you have applied for Non-Resident Status and HMRC have granted you a certificate of Non-Resident status you will have a tax code of NT.

An NT tax code means that no tax will be deducted from pension payments because you are exempt from UK tax due to a double taxation agreement.

HMRC have a number of guidance pages regarding tax and living abroad:

<https://www.gov.uk/tax-foreign-income/residence>

<https://www.gov.uk/tax-uk-income-live-abroad/overview>

## Scottish Rate of Income Tax (SRIT)

The Scottish rate of Income Tax (SRIT) applies from April 2016 if you live in Scotland.

HMRC determines at the beginning of the tax year whether you are a Scottish Resident for tax purposes and your tax code will have a prefix of S for example S1150L.

## My responsibilities

It is your responsibility to ensure that there are sufficient funds in the SIPP bank account to cover any pension payments that have been requested and cleared funds must be in your SIPP's bank account by the 20<sup>th</sup> of the month. If there are insufficient funds we will be unable to make payment.

## Guidance and / or Advice

Accessing your pension savings is a complex process which can lead to irreversible decisions and we recommend that you obtain financial advice and/or guidance to help you with your decision making. It is very important that you are aware of the tax implications of any pension payments that are made to you as it could lead to a large and unexpected tax bill. Payment of income from your SIPP could also affect your entitlement to DWP benefits and further information can be found at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/417473/pension-flexibilities-dwp-benefits.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/417473/pension-flexibilities-dwp-benefits.pdf)

A financial adviser will be able to advise you on all of the options available to you and identify which ones best suit your needs. Pension Wise is a free and impartial service set up by the government which offers guidance and will help you understand what options you have. The Pension Wise website is [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk) alternatively you can call 030 0330 1001.

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