

SSAS Pension Payments Guide

Overview

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

This Information Booklet is based on our understanding of current legislation and HM Revenue & Customs (HMRC) practice. The purpose of this document is to provide general information on the subject, it should not be used as a substitute for advice. This booklet is issued by D A Phillips & Co Ltd for use by our SSAS clients and their Financial Adviser and no responsibility to any third party is accepted if the information in this document is used for any other purpose. D A Phillips & Co Ltd assumes no responsibility or liability for any errors or omissions in this booklet. The legislation and HMRC practice may change in the future.

If you are considering taking a pension payment for the first time from your SSAS and will be flexibly accessing your pension savings this will trigger the money purchase annual allowance rules (MPAA) which will reduce your annual allowance from £40,000 to £4,000 per annum for money purchase schemes. Further information regarding this can be found in this Guide.

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.

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.

Also 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 alternatively you can call 0800 280 8880.

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How are pension payments taxed

We operate a payroll system which pays pension under Pay As You Earn (PAYE). This means that any tax due to HMRC is deducted before your pension is paid to you. We will transfer the gross pension payment that you have requested from your SSAS bank account at the end of the month and transfer it to a dedicated SSAS PAYE account. We will deduct the level of PAYE required by HMRC and the net payment will be paid to you on the last working day of the month. The PAYE deducted will be transferred to HMRC.

If we do not have a tax coding notice for you (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.

If we have received a tax coding notice from HMRC for you 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 SSAS 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.

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 are unable to contact HMRC on your behalf to query a tax code and we must receive a tax code from either HMRC or a previous scheme for it to be applied.

We will issue you with a pension payment advice slip confirming your gross pension, tax and net pension when 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 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. 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.

Receiving a pension payment

How often will I be paid?

We operate a payroll system which pays pension under PAYE on the last working day of each month and we require cleared funds to be in your SSAS bank account by the 20th of the month. If you wish to start taking a pension payment or to change the amount of pension that you receive we require a signed instruction. You can choose to receive your pension monthly, quarterly, half yearly, annually or on an ad hoc basis. However ad hoc pension payments are always paid at the end of the month subject to there being sufficient cleared funds in your SSAS. 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). However we must receive cleared funds and any paperwork required to process the change by the 20th of the month.

Which bank account can I have my pension paid to?

We can pay your pension to a UK or non-UK bank account or building society account but the account must be held in your name, or in joint names with someone else.

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If we are making a pension payment to a non-UK bank account bank charges and conversion charges may apply depending on the option and bank that you have chosen to receive the payments. All pension payments will be paid in Sterling.

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 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 a pension payment is to be paid in May which is tax period 2 you would be entitled to 2/12ths of your tax free personal allowance and this is shown in the example below which assumes a tax code in the 2020/21 tax year of 1250L (cumulative tax code) and a pension payment of £3,000 gross per month:

Firstly you 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 £12,500 before tax.

May is Month 2 in the tax period, 2/12ths of your personal allowance can be taken into account which is £2,083.33 ($£12,500 \times 2 / 12$). Tax is due on the balance of £916.67 ($£3,000 - £2083.33$) which is £183.33.

Another example detailed below is based on the same tax code of 1250L but an ad hoc lump sum payment of £30,000 gross is paid in June.

3/12ths of your personal allowance can be taken into account which is £3,125.00. Tax is due on the balance £26,875 ($£30,000 - £3,125$). 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 £8,873.80. It is likely that you end up being over taxed which is reclaimable (see section what happens if I have underpaid or overpaid tax)

Please note that the values shown in the example above are for tax code 1250L only, with a basic rate tax payer having 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.

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

You can contact HMRC and ask them to send us a tax code. HMRC must send us the tax code before it can be applied and we cannot guarantee that this will be in time for any pension payment that you have requested. Should you wish to do this please let us know and we will provide you with our PAYE

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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>

Underpaid or overpaid tax?

What happens if I have underpaid or overpaid tax?

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

If you have closed your SSAS you can claim any overpaid tax back in the same year and this can be done by sending to HMRC your P45 which we will provide, along with either of the following forms which are 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 SSAS 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 another 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.

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) and Welsh Rate of Income Tax (WRIT)

The Scottish rate of Income Tax (SRIT) applies from April 2016 for individuals resident in Scotland.

The Welsh rate of Income tax (WRIT) applies from April 2019 for individuals resident in Wales.

HMRC determines at the beginning of the tax year whether you are a Scottish or Welsh Resident for tax purposes. Your tax code will have a prefix of S for example S1250L if you live in Scotland and a prefix of C for example C1250L if you live in Wales.

My responsibilities

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

Money Purchase Annual Allowance

Can I still pay contributions after I have taken benefits from my SSAS?

Contributions can still be paid to your SSAS after you have taken benefits, but the amount that can be paid in and receive tax relief on will depend on the benefit option that you have selected.

Flexibly accessing a pension fund triggers the money purchase annual allowance which reduces your annual allowance from £40,000 to £4,000 per annum for money purchase schemes. The following actions will trigger the money purchase annual allowance; taking an income under Flexi Access Drawdown (FAD); taking an Uncrystallised Funds Pension Lump Sum (UFPLS); taking a stand alone lump sum with Primary Protection; taking an income under a flexible annuity.

If you flexibly access your pension savings we will issue you with a Flexible Access Notification which will explain the reason for the notification being issued along with any actions you need to take.

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