

SIPP 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 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 DP Pensions Ltd for use by our SIPP clients and their Financial Adviser (if they have one) and no responsibility to any third party is accepted if the information in this document is used for any other purpose. DP Pensions Ltd assumes no responsibility or liability for any errors or omissions in this booklet. The legislation and HMRC practice may change in the future.

Accessing pension savings is a complex process which can lead to irreversible decisions and we recommend that you obtain financial advice from an FCA regulated Financial Adviser and/or guidance from Pension Wise 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 and make you aware of the potential tax implications.

Pension Wise is a service set up by the government that offers free and impartial guidance to help you understand what options you have at retirement. The Pension Wise website is <https://www.moneyhelper.org.uk/en/pensions-and-retirement/pension-wise> alternatively you can call 0800 138 3944.

Please contact us if you would like this document in an alternative format.

Contents

| | |
|--|----------|
| Introduction | 1 |
| How are pension payments taxed | 2 |
| Receiving a pension payment | 2 |
| Tax Codes | 3 |
| Underpaid or overpaid tax | 4 |
| UK income and living abroad | 5 |
| Welsh and Scottish Rate of Income Tax | 5 |
| Responsibilities | 5 |
| Money Purchase Annual Allowance | 6 |
| Pension Scams | 6 |
| Things to consider | 6 |
| Glossary of Terms | 8 |

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Authorised and regulated by the
Financial Conduct Authority (463171)

How are pension payments taxed

Your pension payments will be taxed as pension income and 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 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 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 0T.

An emergency tax code will be applied until HMRC issue you and us with a tax code and a 0T tax code means that we cannot take into account any Personal Allowance you are entitled to until your tax code is updated (see Tax Codes section for further information). 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.

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.

If you have transferred into your SIPP a pension plan that you have already taken benefits from we may have received a P45 from the transferring scheme, if this is the case we will apply the tax code on the P45 when determining the net level of pension to be paid. Some pension providers only provide the P45 to the member when a transfer is completed and we would ask that you forward on Part 2 and Part 3 of the P45 if this is the case. We can only apply the tax code if we are in receipt of the P45 as this contains all the details that we need.

When you take a pension payment from your SIPP we will issue to you a pension payment advice slip, this confirms the gross pension taken from the SIPP's bank account, tax that will be paid to HMRC and the net pension that will be paid to you. 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.

All pension payment information is also reported to HMRC in real time, this means that every time a pension payment is made information about the pension payment made and tax deducted under the PAYE system is sent electronically to HMRC. This enables HMRC to keep more accurate records.

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 SIPP's 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 SIPP bank account. 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 in your SIPP bank account 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. We cannot make payment to a business account or an account in someone else's name.

If we are making a pension payment to a non-UK bank account bank charges and conversion charges may apply. We will instruct the bank to pay the amount of pension that you have requested in the currency that you have requested e.g. US Dollars, Euros. The bank will convert the Sterling amount to the currency requested, the exchange rate used is determined by the bank and we do not have any control over the timing and rate used.

Verifying your bank details

Before we pay you your first pension payment or if you change your bank details we will carry out checks to verify that the account details provided are correct. As these types of payments can be susceptible to fraud we will not make any pension payment until we are satisfied that the account details are correct and we may ask you to provide additional information to be able to do this.

Level of pension payment that you receive

If you wish to change the level of pension that you receive we will require a signed instruction. If the level of pension requested is significantly different to that which you normally take or if you request a large one off pension payment we may carry out additional due diligence checks which must be completed to our satisfaction before the payment will be made. We may ask you to provide additional information to be able to do this.

Tax Codes

Tax codes are operated either on a cumulative or non cumulative basis. We have provided a Glossary of Tax Codes at the end of this guide which explains what the tax code letters mean.

The tax year runs from the 6th April one year to the 5th April of the following year and within the tax year there are tax period months which run from the 6th of one month to the 5th of the next month. For example the 1st tax month runs from the 6th April to 5th May. The 2nd tax month runs from 6th May to 5th June and so on.

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 2024/25 tax year of 1257L (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 £12,570 before tax.

May is Month 2 in the tax period, 2/12ths of your personal allowance can be taken into account which is £2,095 (£12,570 x 2 / 12). Tax is due on the balance of £905 (£3,000 - £2095) which is £181.

Another example detailed below is based on the same tax code of 1257L 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 £3,142.50. Tax is due on the balance £26,857.50 (£30,000 – £3,142.50). 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 £8,857.00. 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 1257L 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 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>

Can I work out how much income tax I will pay for the year?

HMRC have a calculator on their website <https://www.gov.uk/estimate-income-tax> to help you estimate your income tax for the current tax year. We recommend you use this calculator to understand the income tax that may be deducted from any pension payment that you wish to take.

Underpaid or overpaid tax

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, 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.

SIPP Pension Payments Guide

If you have closed your SIPP 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 stopped work and flexibly accessed your pension

P53Z – if you have taken a small pension lump sum

If you have taken a one off payment from your pension scheme and do not wish to receive any further pension payments in the tax year 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 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) came into effect on 6th April 2016 for individuals resident in Scotland.

The Welsh rate of Income Tax (WRIT) came into effect on 6th April 2019 for individuals resident in Wales.

The Scottish and Welsh governments set the rate of income tax that Scottish and Welsh residents pay.

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 S1257L if you live in Scotland and a prefix of C for example C1257L if you live in Wales.

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 20th of the month. If there are insufficient funds we will be unable to make payment.

If you wish to change the bank account that your pension payments are made to or wish to change the amount of pension that you receive we will require a signed instruction confirming the change. Please contact your Account Manager to request the form(s) that we require to be completed. If your bank details are changed we will carry out checks to ensure, as far as possible, that the request that we have received is not fraudulent, this may mean that we contact your (or your adviser if you have one) to verify the bank details before any change is made.

Money Purchase Annual Allowance

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

Contributions can still be paid to your SIPP 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.

The following actions will trigger the money purchase annual allowance, If any of the following apply to any of your pension schemes this means that you have triggered the money purchase annual allowance and your annual allowance for contributions of £60,000 has been reduced to £10,000 for money purchase schemes:

- taking an income payment 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 have flexibly accessed your pension savings and triggered the money purchase annual allowance 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.

Please note that the money purchase annual allowance will not be triggered by taking a tax free lump sum and putting your pension pot into flexi access drawdown and not taking an income.

Pension Scams

Pension scams can lead to someone losing some or all of their pension savings. Please contact us immediately if you suspect a scam. Further information can also be found at <https://www.fca.org.uk/scamsmart> and <https://www.thepensionsregulator.gov.uk/en/pension-scams>.

Things to Consider

When deciding on the level of pension payments that you wish to take from your pension fund you should consider whether the payments are sustainable and will meet not just your needs now but your need for income in later life. We can provide you with an illustration to show you how long your pension fund may last based on the level of income that you intend to take.

Whilst deciding on the level of income that you wish to take from your pension fund you should consider the effect of charges on the value of your pension fund. DP Pensions Ltd current level of fees can be found at <https://www.dapco.co.uk/literature/> and these will be reviewed from time to time. Other fees that may apply, include, but are not limited to:

- Financial Advisers advice
- Investment Managers Annual Management Charge (AMC)
- Property fees if applicable

Our fee schedule also gives further information on fees which you should consider.

Unless you have an active cancellation period you do not have a right to cancel any pension payment that you have received. You will only have an active cancellation period if you have taken a pension commencement lump sum (otherwise known as tax free cash) from your SIPP within the last 30 days. It is therefore important that understand the level of tax that will be taken off from any pension payment that you have requested and that you are certain that you have chosen the correct level of income for your needs.

Glossary of Tax Codes – Pension Payments Guide

| Letters | What they mean |
|---------|---|
| L | You're entitled to the standard tax-free personal allowance |
| T | Your tax code includes other calculations to work out your Personal Allowance |
| 0T | Your personal allowance has been used up, or you've started a new job and your employer does not have the details they need to give you a tax code |
| BR | All your income from this job or pension is taxed at the basic rate (usually used if you've got more than one job or pension) |
| D0 | All your income from this job or pension is taxed at the higher rate (usually used if you've got more than one job or pension) |
| D1 | All your income from this job or pension is taxed at the additional rate (usually used if you've got more than one job or pension) |
| NT | You're not paying any tax on this income |
| S | Your income or pension is taxed using the rates in Scotland |
| S0T | Your Personal Allowance (Scotland) has been used up, or you've started a new job and your employer does not have the details they need to give you a tax code |
| SBR | All your income from this job or pension is taxed at the basic rate in Scotland (usually used if you've got more than one job or pension) |
| SD0 | All your income from this job or pension is taxed at the intermediate rate in Scotland (usually used if you've got more than one job or pension) |
| SD1 | All your income from this job or pension is taxed at the higher rate in Scotland (usually used if you've got more than one job or pension) |
| SD2 | All your income from this job or pension is taxed at the advanced rate in Scotland (usually used if you've got more than one job or pension) |
| SD3 | All your income from this job or pension is taxed at the top rate in Scotland (usually used if you've got more than one job or pension) |
| C | Your income or pension is taxed using the rates in Wales |

| Letters | What they mean |
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| C0T | Your Personal Allowance (Wales) has been used up, or you've started a new job and your employer does not have the details they need to give you a tax code |
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| CBR | All your income from this job or pension is taxed at the basic rate in Wales (usually used if you've got more than one job or pension) |
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| CD0 | All your income from this job or pension is taxed at the higher rate in Wales (usually used if you've got more than one job or pension) |
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| CD1 | All your income from this job or pension is taxed at the additional rate in Wales (usually used if you've got more than one job or pension) |
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| W1 | If W1 is at the end of your tax code this is a temporary emergency tax code. HMRC will usually update your tax code when you or your employer give them further information |
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| M1 | If M1 is at the end of your tax code this is a temporary emergency tax code. HMRC will usually update your tax code when you or your employer give them further information |
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| X | If X is at the end of your tax code this is a temporary emergency tax code. HMRC will usually update your tax code when you or your employer give them further information |
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| K | Tax codes with K at the beginning mean that you have income that is not being taxed another way and it is worth more than your tax free allowance |
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