ASSURED RETIREMENT
HELPING SECURE YOUR FUTURE

Taxation of your Cash Retirement Account

Since the 6th April 2015, as a result of the new pension freedoms, you can have been allowed to decide exactly how much income to take from your pension. However, you should be aware that these withdrawals are subject to income tax.

With the exception of any Pension Commencement Lump Sum (also called tax free cash), payments from your Cash Retirement Account will have income tax deducted under Pay As You Earn (PAYE).

Nearly everyone is entitled to a tax-free Personal Allowance, which means that a certain amount of your pension income each year can be paid without being taxed. However, if you have a job or another source of pension income (including the state pension), it's possible that part, or all, of your personal allowance could have been used elsewhere. For the tax year starting on 6 April 2018, the Personal Allowance is £11,850.

Outside of the Personal Allowance, the next £34,500 of income will be taxed at 20% and income from £34,501 to £150,000 will be taxed at 40%. Income of £150,001 and above will be taxed at 45%. For income above £100,000, your personal allowance is reduced by £1 for every £2 of income.

If you have a valid P45, we will use this from outset to help ensure the correct tax is deducted but in the absence of a valid P45, PAYE rules dictate that for the first payment, tax is deducted at a temporary rate, called an emergency rate. HMRC will then issue a new tax code so that subsequent payments will correct your tax position.

In either case, this could mean that if you only make one withdrawal or a series of irregular withdrawals income tax may be overpaid.

Where the tax deducted under PAYE is in excess of what you owe, HMRC have introduced some new tax reclaim forms to enable individuals to reclaim overpaid tax before the end of the tax year:

- form P50Z if you have used all of your pension pot and have no other taxable income.
- form P53Z if you have used all of your pension pot and have other taxable income in this tax year.
- form P55 if you receive one flexible pension payment that does not use all of your pension pot and do not intend to take a further payment from the same pension scheme this tax year.

Alternatively, you may wait until the end of the tax year when HMRC should work out what you have overpaid and repay it to you automatically, or if you are liable to higher rates of tax, will ask you to complete a self-assessment tax return and pay any higher rate tax due. If at any time, you believe your tax code is incorrect, it is your responsibility to contact your local tax office and resolve this.

If you have a valid P45 from your previous employer, you therefore need to send us the new employer section of your P45 (parts 2 and 3). This will help ensure that we can use your correct tax code from outset.

IMPORTANT NOTE

This information is based upon our understanding of current HMRC practice. Tax treatment can change and depends upon your circumstances. This information is not advice and if you are unsure about the suitability of an investment, you should seek Independent Financial Advice.

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REF 060418-013