

# Quilter



A guide to  
income tax  
and your  
pension

*Suitable for customers  
and investors*

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## How this guide can help you

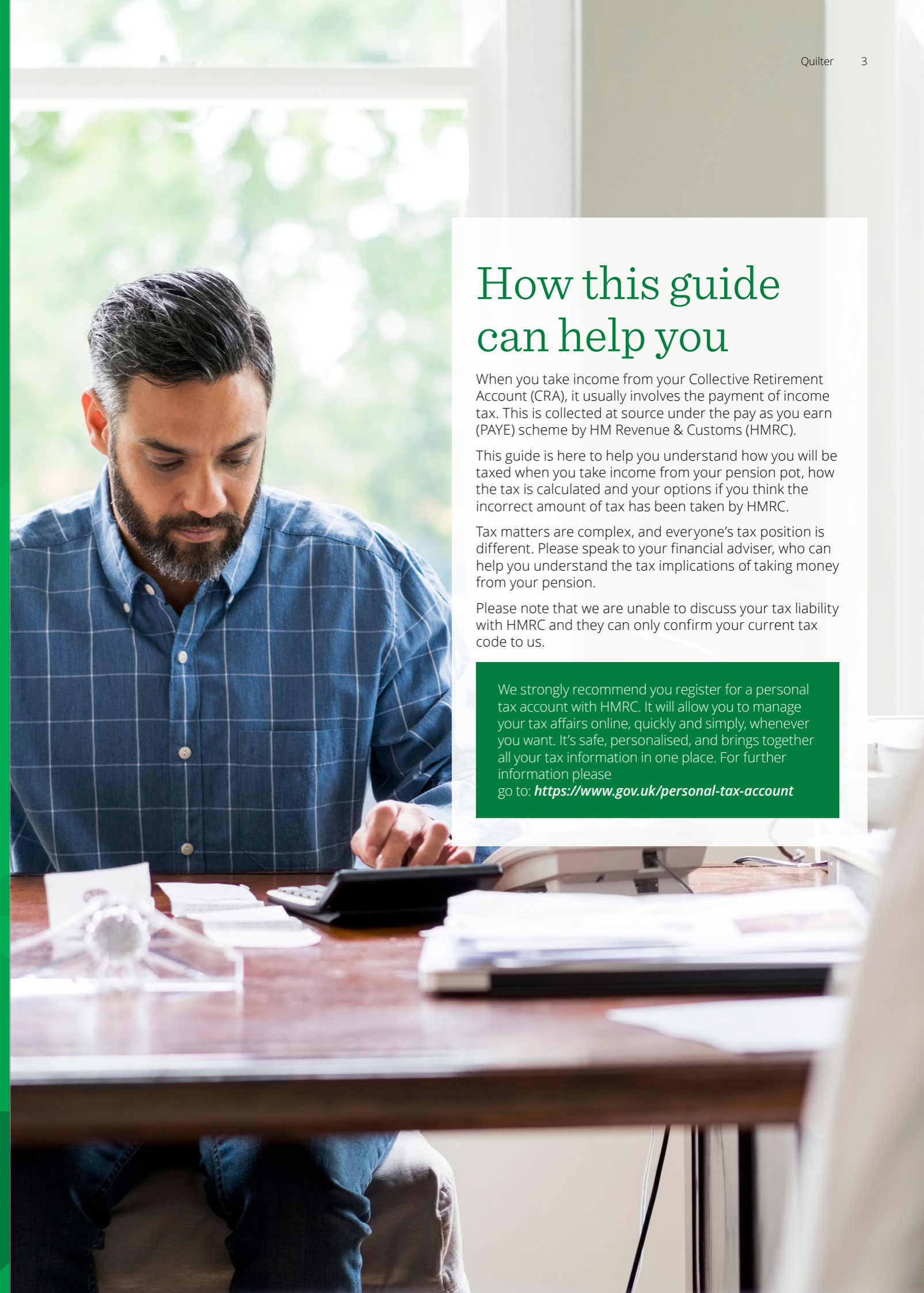
When you take income from your Collective Retirement Account (CRA), it usually involves the payment of income tax. This is collected at source under the pay as you earn (PAYE) scheme by HM Revenue & Customs (HMRC).

This guide is here to help you understand how you will be taxed when you take income from your pension pot, how the tax is calculated and your options if you think the incorrect amount of tax has been taken by HMRC.

Tax matters are complex, and everyone's tax position is different. Please speak to your financial adviser, who can help you understand the tax implications of taking money from your pension.

Please note that we are unable to discuss your tax liability with HMRC and they can only confirm your current tax code to us.

We strongly recommend you register for a personal tax account with HMRC. It will allow you to manage your tax affairs online, quickly and simply, whenever you want. It's safe, personalised, and brings together all your tax information in one place. For further information please go to: <https://www.gov.uk/personal-tax-account>



# Income tax and pensions: the basics

Taking income from your pension usually involves the payment of income tax. Like income from employment, tax on pension income is collected at source under the PAYE scheme by HMRC.

However, while employment income is generally paid in the same way each month - meaning the tax deducted by HMRC remains broadly similar each month - the flexibility of pension income and the ability to take irregular payments and lump sums means that HMRC will have to estimate how much tax to deduct month to month, and it is only at the end of the tax year when overpayments or underpayments are settled. We'll look at this in more detail later.

Quilter acts as an agent of HMRC and collects tax from your withdrawals in accordance with their rules.



### The tax-free element of your withdrawals:

You are normally allowed to take 25% of the value of your pension pot free of tax, which can be taken upfront as a single tax-free lump sum or as the tax-free portion of a number of withdrawals. For example, if you took a regular £100 withdrawal, £25 of this would be tax free and £75 would be taxable.

**The taxable element of your withdrawals:** After you have taken 25% of the value of your pension pot tax-free, the remaining 75% is moved into a drawdown pot that you can either take straight away as income or at any point in the future. This 75% is taxable and when taking income, the tax due is calculated in the same way as the income tax paid on employment earnings.

**The amount of tax you pay:** The amount of tax deducted will depend on how much of your taxable income is above your tax-free personal allowance, your tax code, the amount you withdraw and when you take this within the tax year.

**Emergency tax:** In certain circumstances, usually when you first start taking income from your pension, you will be taxed using an emergency tax code. This may result in you paying considerably more tax than you may be expecting.

**Claiming back tax:** If you have paid more tax than you should, and if you are not expecting to receive further pension withdrawals in the tax year, you may be able to reclaim any overpaid tax directly from HMRC. See page 17 for more information.

As any pension income is taxed under the income tax rules, it may affect the tax rate that is applied to any other income you receive, such as employment income.

# Step 1: understanding your tax code

Your tax code shows the amount of annual tax-free personal allowance you are entitled to and takes account of any entitlement to allowances and tax reliefs, less any deductions.

HMRC considers all your sources of income – including employment income, benefits, savings interest, investments and other pension income – to arrive at a tax code.

Your tax code can change throughout the year, especially if your circumstances change or you take a state pension or drawdown pension income from another source.

If you have set up a personal tax account with HMRC, you can instantly view your tax code, manage your tax affairs online and see how your tax is calculated: [www.gov.uk/personal-tax-account](https://www.gov.uk/personal-tax-account)

Your tax code tells your pension provider how much tax to deduct. It is your responsibility to read the notices HMRC sends you to check that the tax due has been calculated using the correct information. We will always inform you of the tax code used for any taxable payment we pay to you.

## What tax code will we use?

As Quilter acts on behalf of HMRC, we must use the tax code we are instructed to use by HMRC.

### The three scenarios that could apply are:

- 1 If we do not hold a tax code for you, we use what is commonly known as an **emergency tax code**. We will notify HMRC of any payments made and they should inform us of the tax code we have to use in the future.
- 2 If you have sent us a P45 (in respect of an employment or pension that terminated) for the same tax year as the payment we are making, we will use the tax code printed on the P45. We will use this on a 'Month 1' basis. More information on this can be found on page 10.
- 3 If we already hold a tax code for you, we will use that tax code.

Most tax codes are made up of a number followed by a letter. The most common tax code for the 2026/2027 tax year is 1257L. This means that you are entitled to the full annual personal allowance of £12,570.

The **emergency tax code** for the 2026/2027 tax year is 1257LM1. This means your personal allowance for the year is £12,570 however only on a 'Month 1' basis. More information on this can be found on page 10.



If you are a Scottish taxpayer, HMRC will apply the Scottish Rate of Income Tax (SRIT) and your tax code will be prefixed with an S. For more information please visit: [www.gov.uk/scottish-income-tax](https://www.gov.uk/scottish-income-tax)

If you are a Welsh taxpayer, HMRC will apply the Welsh Rate of Income Tax (WRIT) and your tax code will be prefixed with a C. For more information please visit: [www.gov.uk/welsh-income-tax](https://www.gov.uk/welsh-income-tax)

The letters in your tax code refer to your situation and how it affects your personal allowance. A list of common letters is included in the appendix at the back of this document.

It's possible that you may have more than one tax code if you are in receipt of an inherited beneficiary plan following the death of a pension scheme member. If we receive a revised tax code from HMRC after a payment has been processed, it will not be applied until your next payment.

## Telling HMRC when your circumstances change

You need to inform HMRC when there's a change to your personal circumstances or taxable income which could affect your tax liability, otherwise HMRC may give you the wrong tax code. For further details please visit:

[www.gov.uk/tell-hmrc-change-of-details/income-changes](https://www.gov.uk/tell-hmrc-change-of-details/income-changes)

## Step 2: understanding your tax rate

Tax is due on all income that exceeds your tax-free personal allowance. The amount of tax calculated depends on your income, the HMRC income bands, where you live and the corresponding tax rates.

Your rate of tax will depend on your residence. Normally you will pay the standard rates of income tax. However, if you live in Scotland and reside there for more than half of the tax year, you will pay the Scottish Rate of Income Tax (SRIT), or if you live in Wales for more than half of the year, you will pay the Welsh Rate of Income Tax (WRIT).

To work out how much tax you will pay on your pension income, you start with your total income, deduct any reliefs you are entitled to and deduct your allowances including your personal allowance. Whatever is left over you apply the below tax bands to.

### England and Northern Ireland (2026/2027):

Band	Annual taxable income	Tax rate
Basic rate	£1 to £37,700	20%
Higher rate	£37,701 to £125,140	40%
Additional rate	Over £125,140	45%

### Wales (2026/2027):

Band	Annual taxable income	Tax rate (WRIT)
Basic rate	£1 to £37,700	20%
Higher rate	£37,701 to £125,140	40%
Additional rate	Over £125,140	45%

### Scotland (2026/2027):

Band	Annual taxable income	Tax rate (SRIT)
Starter rate	£1 up to £3,967	19%
Basic rate	£3,968 to £16,956	20%
Intermediate rate	£16,957 to £31,092	21%
Higher rate	£31,093 to £62,430	42%
Advanced rate	£62,431 to £125,140	45%
Top rate	Over £125,140	48%

Source: [www.gov.uk/guidance/rates-and-thresholds-for-employers-2026-to-2027#tax-thresholds-rates-and-codes](https://www.gov.uk/guidance/rates-and-thresholds-for-employers-2026-to-2027#tax-thresholds-rates-and-codes)



# Step 3: understanding when you will be paid and how this affects your tax bill

Quilter gives you the option to choose how frequently you would like your regular pension income to be paid. This can either be monthly, every 3 months, every six months or annually.

The UK tax year runs from the 6th of April to the following 5th of April. For example, 6th April 2026 to 5th April 2027 is one tax year. Within the tax year, there are 12 tax periods, which follow the same format, with each tax period running from the 6th of the month to the 5th of the next month.

**There are three main components that influence how your tax is calculated by HMRC:**

- 1 Your assigned tax code
- 2 The payment frequency you choose
- 3 The tax period you are paid in

Based on this information, HMRC will either calculate your tax bill on a 'Month 1' basis, or on a 'cumulative' basis.

### What is a Month 1 basis?

If there is an M1 at the end of your tax code (e.g.1257LM1), then your tax is currently being calculated on a Month 1 basis. For instance, this can occur the first time you receive your pension payment. This is commonly called the 'emergency tax code'.

This means that HMRC will look at each payment you receive and calculate your tax based on that payment only. They will not take into account any previous payments you have received, or any tax you have previously paid. It will be calculated as if you are taking the payment on the first month of the tax year.

The amount of personal tax-free allowance included in the calculation will be proportional to your chosen frequency of payments, as will the proportion of the tax band used to calculate your tax liability.

### M1 example:

If you choose to receive **monthly** payments, you will be entitled to just one month (1/12th) of your tax-free allowance, and the remaining balance will also be taxed against the equivalent 1/12th, or 8.3%, of each of the relevant tax income bands discussed in Step 2: understanding your tax rate.

**It's important to note that HMRC will treat a one-off payment the same as a monthly payment. This means that if you take that income, your taxes could be higher than you expect.**

Similarly, if you choose to receive payments every 6 months, you will be entitled to **6 months** (50%) of your tax-free allowance, and the remaining balance will also be taxed at 6/12th, or 50% of each of the relevant income tax bands.

The same applies to one-off payments (which are treated the same as monthly payments), quarterly payments received every 3 months, and annual payments.

### What is a cumulative basis?

If there is not an M1 at the end of your tax code, then you are taxed on a cumulative basis. This means that every time you receive a payment, the tax is determined by taking into account any tax you've already paid this tax year (since the previous April) and how much of your accumulated tax-free personal allowance and income tax bands have been used up.

### Cumulative example:

If your pension income is to be paid in November (tax period 8) and you receive payments **monthly**, you will be entitled to 8/12th (or 66.6%) of your tax-free personal allowance, and the remaining balance will also be taxed against 8/12th (or 66.6%) of each of the relevant income tax bands.

Similarly, if your pension income is to be paid in November (tax period 8) and you choose to receive payments **quarterly**, you will be entitled to 75% of your tax-free personal allowance, and the remaining balance will be taxed against 75% of each of the relevant tax income bands.

*Based on the month of payment, what percentage of your tax-free allowance and tax-band will HMRC apply?*

- 1 Look at the relevant table for your tax code
- 2 Choose the relevant payment frequency
- 3 Choose the month you are taking your payment, you can see what proportion (%) of your tax-free allowance and tax-band HMRC will apply at that time

	Date range	Apr 6th – May 5th	May 6th – Jun 5th	Jun 6th – Jul 5th	Jul 6th – Aug 5th	Aug 6th – Sep 5th	Sep 6th – Oct 5th	Oct 6th – Nov 5th	Nov 6th – Dec 5th	Dec 6th – Jan 5th	Jan 6th – Feb 5th	Feb 6th – Mar 5th	Mar 6th – Apr 5th
Month 1 Basis	Tax period	1	2	3	4	5	6	7	8	9	10	11	12
	Monthly & one off payments	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
	Quarterly payments	25%			25%			25%			25%		
	Half yearly payments	50%						50%					
	Annual payments	100%											
Cumulative Basis	Monthly & one off payments	8.3%	16.6%	25%	33%	41.6%	50%	58.3%	66.6%	75%	83.3%	96.1%	100%
	Quarterly payments	25%			50%			75%			100%		
	Half yearly payments	50%						100%					
	Annual payments	100%											

\* If you are applying a percentage with a decimal place to your own income, it's important you repeat the number after the decimal place for the whole screen of your calculator, as this will give you the exact correct number. For example 8.3% would actually be 8.33333333% and 66.6% would be 66.66666666%.

### What are the key differences between taxation on a Month 1 basis and a cumulative basis?

Month 1 Basis	Cumulative Basis
<b>Tax Code has M1 at the end</b>	Tax code does not have M1 at the end
<b>Does not take into account any previous income earned or previous tax paid</b>	Takes into account any previous income earned or previous tax paid
<b>Gives you a set proportion of personal allowance</b>	Personal allowance is specific to your situation, based on what you've used to date

# Examples of paying tax on your pension income

So far we have considered how your tax code, tax rates and payment frequency impact the amount of tax you will pay on your pension income. The examples below show how these work in practice.

They demonstrate that in the majority of cases, the amount of tax you pay will be an estimate by HMRC so you may be subject to tax that is more or less than you were expecting. You can find out more about claiming back overpaid tax on page 17.

## Taking one-off payments

### Example: 'Month 1' One-off payment in England

- Savannah lives in England and wants to take a **one-off payment** of £15,000 on **10th October**.
- This is her first pension income payment, so she is initially taxed on the emergency tax code **1257L M1**. This means her personal allowance is **£12,570** and she is taxed on a **Month 1** basis.
- Referring to the **Month 1 basis table** a one-off payment on **10th October** means that **8.3%\*** of the **personal allowance** will apply to the payment. *\*When using a calculator enter 8.33333333%*
- The PAYE system adds £9 to Savannah's personal allowance and rounds down her taxable income to the nearest pound.

#### £15,000 Gross Income (One-off)

**Tax code: 1257LM1**

**Step 1** – Tax free allowance for this payment is:  $£12,579 \times 8.3\% = \mathbf{£1,048.25}$

**Step 2** – Therefore, taxable income is:  $£15,000 - £1,048.25 = \mathbf{£13,951.75}$   
Taxable income rounded down to the nearest £ is: **£13,951**

**Step 3** – Work out which tax bands apply to you:

- 3a** 20% tax on any taxable income between £1 and £37,700  
= 20% tax on first £37,700  
Adjusted for one-off income = 20% tax on first £37,700 x 8.3%\* to adjust for one-off income  
= **20% tax on first £3,141.66 (8.3% of £37,700)**
- 3b** 40% tax on any taxable income between £37,701 and £125,140  
= 40% tax on next £87,440  
Adjusted for one-off income = 40% tax on £87,440 x 8.3% to adjust for one-off income  
= **40% tax on next £7,286.66 (8.3% of £87,440)**
- 3c** 45% tax on taxable income above £125,140  
= **45% tax on any remaining income**

**Step 4** – Calculate tax to be paid on £15,000 taxable income

20% on £3,141.66	= £628.33
+ 40% on £7,286.66	= £2,914.66
+ 45% on remaining £3,522.68	= £1,585.21
<b>Total tax to be paid</b>	<b>= £5,128.20</b>

**Step 5** – Calculate income after tax (for this one-off payment)

£15,000 [Gross income] - £5,128.20 [Total tax] = **£9,871.80 [Take Home]**



### Example: 'Cumulative' One-off payment in England

- Willow lives in England and wants to withdraw a one-off payment of **£15,000** from her pension on **10th October**.
- As she had income from her pension in the previous tax year, we have a tax code of 1257L on file. This means her personal allowance is **£12,570** and she is taxed on a **cumulative** basis.
- Referring to the **Cumulative basis table**, a one-off payment on **10th October** means that **58.3%\*** of the **personal allowance** will apply to the payment. *\*When using a calculator enter 58.33333333%*
- The PAYE system adds £9 to Willow's personal allowance and rounds down her taxable income to the nearest pound.

#### £15,000 Gross Income (One-off)

**Tax code: 1257L**

**Step 1** – Tax free allowance for this payment is:  $£12,579 \times 58.3\% = \mathbf{£7,337.75}$

**Step 2** – Therefore, taxable income is:  $£15,000 - £7,337.75 = \mathbf{£7,662.25}$   
Taxable income rounded down to the nearest £ is: **£7,662**

**Step 3** – Work out which tax bands apply to you:

- 3a** 20% tax on any taxable income between £1 and £37,700  
= 20% tax on first £37,700  
Adjusted for one-off income = 20% tax on first £37,700 x 58.3%\* to adjust for one-off income  
= **20% tax on first £21,991.67 (58.3% of £37,700)**
- 3b** 40% and 45% tax bands do not apply in this example

**Step 4** – Calculate tax to be paid on £15,000 taxable income

20% on £7,662	= £1,532.40
<b>Total tax to be paid</b>	<b>= £1,532.40</b>

**Step 5** – Calculate income after tax (for this one-off payment)

£15,000 [Gross income] - £1,532.40 [Total tax] = **£13,467.60 [Take Home]**

## Taking income quarterly

### Example: 'Month 1' Quarterly payment in England

- Jane lives in England and wants to withdraw **£35,000** from her pension every quarter, starting on 20th August.
- This is her first pension income payment, so she is initially taxed on the emergency tax code **1257LM1**. This means her personal allowance is **£12,570** and she is taxed on a **Month 1** basis.
- Referring to the **Month 1 basis table**, a quarterly payment on 20th August means that **25% of the personal allowance** will apply to the payment.
- The PAYE system adds £9 to Jane's personal allowance and rounds down her taxable income to the nearest pound.

#### £35,000 Gross Income (Quarterly)

Tax code: 1257L M1

Step 1 – Tax free allowance for this payment is: £12,579 x 25% = **£3,144.75**

Step 2 – Therefore, taxable income is: £35,000 – £3,144.75 = **£31,855.25**  
Taxable income rounded down to the nearest £ is: **£31,855**

Step 3 – Work out which tax bands apply to you:

3a 20% tax on any taxable income between £1 and £37,700  
= 20% tax on first £37,700

Adjusted for quarterly income = 20% tax on first £37,700 x 25% to adjust for quarterly income  
= **20% tax on first £9,425 (25% of £37,700)**

3b 40% tax on any taxable income between £37,701 and £125,140  
= 40% tax on next £87,440

Adjusted for quarterly income = 40% tax on £87,440 x 25% to adjust for quarterly income  
= **40% tax on next £21,860 (25% of £87,440)**

3c 45% tax on taxable income over £125,140  
= **45% tax on any remaining income**

Step 4 – Calculate tax to be paid on £35,000 taxable income

20% on £9,425	= £1,885.00
+ 40% on £21,860	= £8,744.00
+ 45% on remaining £570	= £256.50
<b>Total tax to be paid</b>	<b>= £10,885.50</b>

Step 5 – Calculate income after tax (for this quarterly payment)

£35,000 [Gross income] - £10,885.50 [Total tax] = **£25,114.50 [Take Home]**

### Example: 'Cumulative' Quarterly payment in England

- Finley lives in England and wants to withdraw **£35,000** from his pension every quarter, starting on **20th August**.
- As he had income from his pension in the previous tax year, we have a tax code of 1257L on file. This means his personal allowance is **£12,570** and he is taxed on a **cumulative** basis.
- Referring to the **Cumulative basis table**, a quarterly payment on **20th August** means that **50% of the personal allowance** will apply to the payment.
- The PAYE system adds £9 to Finley's personal allowance and rounds down his taxable income to the nearest pound.

#### £35,000 Gross Income (Quarterly)

Tax code: 1257L

Step 1 – Tax free allowance for this payment is: £12,579 x 50% = **£6,289.50**

Step 2 – Therefore, taxable income is: £35,000 – £6,289.50 = **£28,710.50**  
Taxable income rounded down to the nearest £ is: **£28,710**

Step 3 – Work out which tax bands apply to you:

3a 20% tax on any taxable income between £1 and £37,700  
= 20% tax on first £37,700

Adjusted for quarterly income = 20% tax on first £37,700 x 50% to adjust for quarterly income  
= **20% tax on first £18,850 (50% of £37,700)**

3b 40% tax on any taxable income between £37,701 and £125,140  
= 40% tax on next £87,440

Adjusted for quarterly income = 40% tax on £87,440 x 50% to adjust for quarterly income  
= **40% tax on next £43,720 (50% of £87,440)**

3c 45% tax band does not apply in this example

Step 4 – Calculate tax to be paid on £35,000 taxable income

20% on £18,850	= £3,770
+ 40% on remaining £9,860	= £3,944
<b>Total tax to be paid</b>	<b>= £7,714</b>

Step 5 – Calculate income after tax (for this first quarterly payment)

£35,000 [Gross income] - £7,714 [Total tax] = **£27,286 [Take Home]**

**However he will pay more tax for the next payment because he will only have 25% of his personal allowance and tax bands for ongoing quarterly payments.**

**Example: 'Cumulative' Quarterly Scotland**

- Caden lives in Scotland and wants to withdraw **£25,000** from his pension every **quarter**, starting on **8th November**.
- As he had income from his pension in the previous tax year, we have a tax code of S1257L on file. This means his personal allowance is **£12,570** and he is taxed on a **cumulative** basis.
- Referring to the **Cumulative basis table**, a quarterly payment on **8th November** means that **75% of the personal allowance** will apply to the payment.
- The PAYE system adds £9 to Caden's personal allowance and rounds down his taxable income to the nearest pound.

**£25,000 Gross Income (Quarterly)****Tax code: S1257L****Step 1** – Tax free allowance for this payment is:  $£12,579 \times 75\% = \mathbf{£9,434.25}$ **Step 2** – Therefore, taxable income is:  $£25,000 - £9,434.25 = \mathbf{£15,565.75}$ Taxable income rounded down to the nearest £ is: **£15,565****Step 3** – Work out which tax bands apply to you:**3a** 19% tax on any taxable income between £1 and £3,967

= 19% tax on first £3,967

Adjusted for quarterly income = 19% tax on first £3,967 x 75% to adjust for quarterly income

**= 19% tax on first £2,975 (75% of £3,967)****3b** 20% tax on any taxable income between £3,968 and £16,956

= 20% tax on next £12,988

Adjusted for quarterly income = 20% tax on £12,988 x 75% to adjust for quarterly income

**= 20% tax on next £9,741 (75% of £12,988)****3c** 21% tax on taxable income between £16,957 and £31,092

= 21% tax on next £14,135

Adjusted for quarterly income = 21% tax on £14,135 x 75% to adjust for quarterly income

**= 21% tax on next £10,601 (75% of £14,135)****3d** The 42%, 45% and 48% tax bands do not apply in this example**Step 4** – Calculate tax to be paid on £25,000 taxable

19% on £2,975.25	= £565.30
+ 20% on £9,741.00	= £1,948.20
+ 21% on remaining £2,848.75	= £598.24
<b>Total tax to be paid</b>	<b>= £3,111.74</b>

**Step 5** – Calculate income after tax (for this first quarterly payment) $£25,000$  [Gross income] -  $£3,111.75$  [Total tax] = **£21,888.27 [Take Home]****However he will pay more tax for the next payment because he will only have 25% of his personal allowance and tax bands for ongoing quarterly payments.****Claiming back overpaid tax**

As explained on page 4, income tax on pension payments, paid through PAYE, is an estimate of the tax you should pay. As it is an estimate, there is a reasonable chance that the amount of tax we deduct from you is not going to be the right amount of tax that you should pay for the complete tax year. This is especially the case the first time we make a payment.

Every time a regular or a one-off taxable payment is processed, if your tax code basis is cumulative, then your tax liability will be re-calculated and any overpaid tax will be repaid to you.

This means any overpaid tax will be refunded to you automatically, but only up to your assigned tax period (according to your pay frequency). You can expect any tax refunds that are due to continue until they are either repaid in full, or your regular taxable income ceases.

If you do not have any regular taxable income, then your tax will not be re-calculated automatically.

If you have overpaid tax in the current tax year, a refund is only possible from Quilter if you ask for another income payment in the same tax year and you have a cumulative tax code.

Therefore, if you are not having another payment, you will need to claim back any overpaid tax from HMRC. HMRC's normal procedure is to review your liability after the end of the tax year (5th April) and issue a tax calculation to you detailing any overpayments or underpayments automatically. More details about this procedure can be found at:

[www.gov.uk/tax-overpayments-and-underpayments](http://www.gov.uk/tax-overpayments-and-underpayments)

If you need any tax overpayment repaid to you sooner, you will need to contact HMRC for an in-year tax refund.

The form you need to complete to claim an in-year refund will depend on your circumstances. The following website will help you identify which form you need to complete by asking you some questions about your reasons for claiming a refund: [www.gov.uk/claim-tax-refund](http://www.gov.uk/claim-tax-refund)

**You can contact HMRC on:****Telephone:** 0300 200 3300**Web:** [www.gov.uk/government/organisations/hm-revenue-customs/contact/income-tax-enquiries-for-individuals-pensioners-and-employees](http://www.gov.uk/government/organisations/hm-revenue-customs/contact/income-tax-enquiries-for-individuals-pensioners-and-employees)**Address:** Pay As You Earn and Self-Assessment, HM Revenue & Customs, BX9 1AS, United Kingdom

If you live outside the United Kingdom, please contact HMRC directly on +44135 535 9022 to claim any in-year tax rebate as there are different rules for claiming tax refunds on a UK pension if you live abroad.

# What happens if I take more than one payment per tax period?

Once you have had one payment in a tax period (explained on page 10), any subsequent payment in the same tax period can result in you paying more or less tax than you expected, and in certain circumstances that payment failing altogether.

This could affect your ability to meet your financial obligations, so we strongly recommend you only request one taxable payment per tax period.

If you do decide to take another payment in the same tax period, your tax may be re-calculated on the new combined taxable income within the same tax period which may take you into a higher tax bracket. This is demonstrated in the following 3 examples about Sakura.

### Example: Base scenario for Sakura

- Sakura lives in England and wants a withdrawal of **£2,000** from her pension every **month**, starting on **7th April**.
- This is her first pension income payment, so she is initially taxed on the emergency tax code **1257LM1**. This means her personal allowance is **£12,570** and she is taxed on a **Month 1** basis.
- Referring to the **Month 1 basis table**, a monthly payment on 7th April means that **8.3%\* of the personal allowance** will apply to the payment. *\*When using a calculator enter 8.33333333%*
- The PAYE system adds £9 to Sakura's personal allowance and rounds down her taxable income to the nearest pound.

### £2,000 Gross Income (Monthly)

**Tax code: 1257LM1**

**Step 1** – Tax free allowance for this payment is:  $£12,579 \times 8.3\% = \mathbf{£1,048.25}$

**Step 2** - Therefore, taxable income is:  $£2,000 - £1,048.25 = \mathbf{£951.75}$   
Taxable income rounded down to the nearest **£** is: **£951**

**Step 3** – Work out which tax bands apply to you:

- 3a** 20% tax on any taxable income between £1 and £37,700  
= 20% tax on first £37,700  
Adjusted for monthly income = 20% tax on first £37,700 x 8.3% to adjust for monthly income  
= **20% tax on first £3,141.66 (8.3% of £37,700)**

**3b** 40% and 45% tax bands do not apply to this example

**Step 4** – Calculate tax to be paid on £2,000 taxable income

20% on remaining £951	= £190.20
<b>Total tax to be paid</b>	<b>= £190.20</b>

**Step 5** – Calculate income after tax (for this monthly payment)

$£2,000$  [Gross income] -  $£190.20$  [Total tax] = **£1,809.80 [Take Home]**

### Example: Second payment where the tax code remains the same

- Following on from the previous example, Sakura now wants to withdraw **£30,000** from her pension as **one-off payment on 20th April**.
- She is still on the emergency tax code **1257LM1**. This means her personal allowance is **£12,570** and she is taxed on a **Month 1** basis.
- Referring to the **Month 1 basis table**, a one-off payment on **7th April** means that **8.3%\* of the personal allowance** will apply to the payment. *\*When using calculator enter 8.33333333%*
- The PAYE system adds £9 to Sakura's personal allowance and rounds down her taxable income to the nearest pound.

### £30,000 Gross Income (One-off)

**Tax code: 1257LM1**

**Step 1** – Tax free allowance for this payment is:  $£12,579 \times 8.3\% = \mathbf{£1,048.25}$

**Step 2** - Therefore, taxable income is:  $£30,000 - £1,048.25 = \mathbf{£28,951.75}$   
Taxable income rounded down to the nearest **£** is: **£28,951**

**Step 3** – Work out which tax bands apply to you:

- 3a** 20% tax on any taxable income between £1 and £37,700  
= 20% tax on first £37,700  
Adjusted for one-off income = 20% tax on first £37,700 x 8.3% to adjust for one-off income  
= **20% tax on first £3,141.66 (8.3% of £37,700)**
- 3b** 40% tax on any taxable income between £37,701 and £125,140  
= 40% tax on next £87,440  
Adjusted for one-off income = 40% tax on £87,440 x 8.3% to adjust for one-off income  
= **40% tax on next £7,286.66 (8.3% of £87,440)**
- 3c** 45% tax on taxable income above £125,140  
= **45% tax on remaining income**

**Step 4** – Calculate tax to be paid on £28,951 taxable income

20% on £3,141.66	= £628.33
+ 40% on £7,286.66	= £2,914.66
+ 45% on remaining £18,522.68	= £8,335.20
<b>Total tax to be paid</b>	<b>= £11,878.19</b>

**Step 5** – Calculate income after tax (for this one-off payment)

$£30,000$  [Gross income] -  $£11,878.19$  [Total tax] = **£18,121.81 [Take Home]**

**Example: Second payment where the tax code has changed**

- Following on from the base scenario, Sakura now wants to withdraw **£30,000** from her pension as one-off payment on **20th April**.
- HMRC has sent a new tax code of **0T**. This means Sakura has no personal allowance and her income will be taxed using the income tax bands as normal.
- Because the new payment is in the same tax period, not only will the new **£30,000** be taxed on this new code, but the tax on the monthly income of **£2,000** already paid will be **recalculated**.
- Referring to the **Cumulative basis table**, a one-off payment on **7th April** means that **8.3%\*** of the tax bands will apply to the payment. *\*When using a calculator enter 8.33333333%*
- The PAYE system rounds down her taxable income to the nearest pound.

**£30,000 Gross Income (One-off) + £2,000 Gross Income (Monthly)****Tax code: 0T****Step 1** – Tax free allowance for this payment is: = **£0****Step 2** – Therefore, taxable income is: £32,000 – £0 = **£32,000**Taxable income rounded down to the nearest **£** is: **£32,000****Step 3** – Work out which tax bands apply to you:**3a** 20% tax on any taxable income between £1 and £37,700

= 20% tax on first £37,700

Adjusted for one-off income = 20% tax on first £37,700 x 8.3% to adjust for one-off income

**= 20% tax on first £3,141.66 (8.3% of £37,700)****3b** 40% tax on any taxable income between £37,701 and £125,140

= 40% tax on next £87,440

Adjusted for one-off income = 40% tax on £87,440 x 8.3% to adjust for one-off income

**= 40% tax on next £7,286.66 (8.3% of £87,440)****3c** 45% tax on taxable income above £125,1400**= 45% tax on remaining income****Step 4** – Calculate tax to be paid on £32,000 taxable income

20% on £3,141.66 = £628.33

+ 40% on £7,286.66 = £2,914.66

+ 45% on remaining £21,571.68 = £9,707.25

Total tax to be paid = £13,250.25

Tax already paid on 7th April = £190.20

**Remaining tax to be paid = £13,060.04****Step 5** – Calculate income after tax (for this one-off payment)£30,000 [Gross income] - £13,060.04 [Total tax] = **£16,939.96 [Take Home]****Comparison of Sakura's scenarios**

Same tax code for two payments		New tax code arrives after first payment	
Tax on £2,000 payment	<b>£190.20</b>	Tax on £2,000 payment	<b>£190.20</b>
Tax on £30,000 payment	<b>£11,878.19</b>	Tax on £30,000 payment	<b>£13,060.04</b>
Total tax	<b>£12,068.39</b>	Total tax	<b>£13,250.25</b>

So you can see that moving to a new cumulative tax code has meant that Sakura paid an extra £1,181.85 in tax.

**HMRC maximum 50% tax deduction rule**

HMRC rules say that no more than 50% of your withdrawal can be deducted as tax. If the tax due is more than 50% we will carry forward the tax owed into your next payment's tax calculation.

This is demonstrated in the below example where Sakura is taking a second payment in the same month and gets a tax code that causes a large tax bill.

**Example: Tax due is more than 50% of the payment requested**

- Following on from the example on page 19, Sakura now wants to withdraw **£30,000** from her pension as **one-off payment** on **20th April**.
- HMRC has sent a new tax code of **K8989**. This means Sakura has no personal allowance and we must add £89,899 in income to work out how much tax Sakura must pay.
- Referring to the **Cumulative basis table**, a one-off payment on **20th April** means that **8.3%\*** of the tax bands will apply to the payment. *\*When using calculator enter 8.33333333%*
- Because the new payment is in the same tax period, not only will the new **£30,000** be taxed on this new code, but the tax on the monthly income of **£2,000** will be recalculated.
- The PAYE system rounds down her taxable income to the nearest pound.

**£30,000 Gross Income (One-off) + £2,000 Gross Income (Monthly)****Tax code: K8989****Step 1** – Tax free allowance for this payment is: = **£0 – K8989 tax code adjustment**

Adjustment for K8989 tax code is: = £89,899 x 8.3% to adjust for one-off payment

= £0 - £7,491.58

**= -£7,491.58****Step 2** – Therefore, taxable income is: £32,000 – (-£7,491.58) = **£39,491.58**Taxable income rounded down to the nearest **£** is: **£39,491****Step 3** – Work out which tax bands apply to you:**3a** 20% tax on any taxable income between £1 and £37,700

= 20% tax on first £37,700

Adjusted for one-off income = 20% tax on first £37,700 x 8.3% to adjust for one-off income

**= 20% tax on first £3,141.66 (8.3% of £37,700)****3b** 40% tax on any taxable income between £37,701 and £125,140

= 40% tax on next £87,440

Adjusted for one-off income = 40% tax on £87,440 x 8.3% to adjust for one-off income

**= 40% tax on next £7,286.66 (8.3% of £87,440)****3c** 45% tax on taxable income above £125,140**= 45% tax on remaining income****Step 4** – Calculate tax to be paid on £32,000 taxable income

20% on £3,141.66 = £628.33

+ 40% on £7,286.66 = £2,914.66

+ 45% on remaining £29,062.68 = £13,078.20

Total tax to be paid = £16,621.19

Tax already paid on 7th April = £190.20

Remaining tax to be paid = £16,430.99

Maximum tax that can be paid = £15,000.00

(50% x £30,000 for new one-off payment)

**Tax to be deducted = £15,000.00****Step 5** – Calculate income after tax (for this one-off payment)£30,000 [Gross income] - £15,000 [Total tax] = **£15,000 [Take Home]**

Remaining tax to be paid carried forward = £1,430.99 (£16,430.99 - £15,000)

### Payment failure

Sometimes a payment will fail because you owe HMRC tax. This could happen if multiple events happen in a short timeframe, such as:

- You take a one-off payment and a monthly payment in the same tax period
- We receive a new tax code between the one-off payment and the monthly payment

This is demonstrated in the examples for Tavish.

#### Example: Base scenario for Tavish

- Tavish lives in Wales and wants to take a **one-off payment of £10,000 on 9th June**.
- As he had income from his pension in the previous tax year, we have a tax code of **BR** on file. This means he has no personal allowance and all income is taxed at 20%.
- As this is a flat rate of tax, there is no need to refer to the Month 1 or Cumulative basis table.
- The PAYE system rounds down his taxable income to the nearest pound.

#### £10,000 Gross Income (One-off)

Tax code: BR

Step 1 - Tax free allowance for this payment is: = £0

Step 2 - Therefore, taxable income is: £10,000 - £0 = **£10,000**  
Taxable income rounded down to the nearest £ is: **£10,000**

Step 3 - Work out which tax bands apply to you:

3a 20% tax on all income = **20% tax all income**

Step 4 - Calculate tax to be paid on £10,000 taxable income

20% on £10,000	= £2,000
<b>Total tax to be paid</b>	<b>= £2,000</b>

Step 5 - Calculate income after tax (for this one-off payment)

£10,000 [Gross income] - £2,000 [Total tax] = **£8,000 [Take Home]**



#### Example: Monthly income fails due to new tax code

- Following on from the example before, Tavish now wants to withdraw **£100 from his pension every month starting on 25th June**.
- Since the one-off payment on **9th June** we have received a new tax code of **D0 40**. This means he has no personal allowance and all income is taxed at 40%.
- As this is a flat rate of tax, there is no need to refer to the Month 1 or Cumulative basis table.
- Because the new payment is in the same tax period, not only will the new **£100** be taxed on this new code but the tax on the one-off income of **£10,000** will be **recalculated**.
- The PAYE system rounds down his taxable income to the nearest pound.

#### £100 Gross Income (Monthly) + £10,000 Gross Income (One-off)

Tax code: D0 40

Step 1 - Tax free allowance for this payment is: = £0

Step 2 - Therefore, taxable income is: £10,100 - £0 = **£10,100**

Taxable income rounded down to the nearest £ is: **£10,100**

Step 3 - Work out which tax bands apply to you:

3a 40% tax on all income = **40% tax on all income**

Step 4 - Calculate tax to be paid on £10,100 taxable income

40% on £10,100	= £4,040
Total tax to be paid	= £4,040
Tax already paid on 9th June	= £2,000
Remaining tax to be paid	= £2,040
Maximum tax that can be paid	= £5,000 (50% x £10,000 for new one-off payment)
Tax to be deducted	= <b>£2,040 (as within 50% limit)</b>

Step 5 - Calculate income after tax (for this one-off payment)

£100 [Gross income] - £2,040 [Total tax] = **-£1,940 [Take Home]**

**Therefore as the take home figure is negative, the payment will fail.**



# The last payment and any other circumstances

## *What happens when the final payment is made?*

We will continue paying you until there is nothing left in the pension account you requested income from. If after we make the final payment, there is no other money in the accounts under your pension, we will close your payroll record, issue you with a P45 and inform HMRC.

The P45 will show you how much tax has been deducted from your taxable pension income within a tax year. If you believe that you have paid more tax than you should have, you may be able to claim a refund from HMRC using the guidance on page 17.

The P45 is split into four parts, but we will only send you parts 1A, 2 and 3. Part 1A is your copy to retain for future reference; please keep it safe as we are not able to provide you with a copy if you misplace it. Parts 2 and 3 are to be handed to either your next employer, pension provider or the Jobcentre Plus.

## *What if I live abroad?*

Your pension income is taxable under UK rules so we will deduct the UK tax required.

If you are subject to tax in any country outside the UK please contact your financial adviser or a tax specialist in the country concerned to understand whether you will be liable for tax in that other country as a result of receiving a payment from a UK pension scheme.

If you have applied for Non-Resident Status and HMRC has granted you a certificate of 'Non-Resident Status' they will issue us a tax code of NT.

An NT tax code dictates that no tax is to be deducted from your pension income because you are exempt from UK tax due to a Double Taxation Agreement.

We can only accept a tax code of NT from a valid P45 or direct from HMRC.

If we receive a tax code of NT from HMRC after deducting tax from your pension income payment, we can only refund any overpaid tax if you are taking a further payment. If you are not taking any further payments you will need to contact HMRC for a refund. Please refer to the section 'Claiming back overpaid tax' on page 17 for more information.

## *What about payments from beneficiary income drawdown?*

A beneficiary is a person who has received a death benefit from a pension scheme after a person has died. A beneficiary's drawdown fund is one type of death benefit a beneficiary may receive.

If your withdrawals are made from a beneficiary's drawdown fund which you were given following the death of a person before their 75th birthday, these will normally be exempt from income tax\*. If they died on/after their 75th birthday the payments will be subject to income tax.

\* The payments would be subject to income tax if the beneficiary's drawdown fund related to a person's pension which had not come into payment before the person died and the pension scheme did not set up the beneficiary's drawdown fund within two years of becoming aware of the person's death.

## *What about small pots?*

When we pay a 'small pot' (which is also referred to as a Small Pension Lump Sum Payment) from your pension pot, 25% is tax free. Although the balance is subject to income tax, we are required to deduct basic rate tax (20%) from it.

When we pay small pots from your drawdown pot, the whole amount is subject to income tax and we will use an emergency Month 1 tax code.

For most small pot payments, you will probably not pay the right amount of tax and need to either make a claim or pay further tax.

New payroll records will be set up exclusively for each small pot payment, so where you are requesting multiple small pots, or using more than one account, you will receive these payments separately and on different dates. Individual P45s will be issued for each new payroll record.

Once we have made the payment, we will close each individual payroll record, supply you with a P45 and advise HMRC. You should then be able to claim any overpayment of tax from them. If you are a higher or additional rate taxpayer, you will have to take this payment into account in your self-assessment return and pay any additional tax or claim any overpaid tax at that point.



For further information please visit:  
<https://www.gov.uk/tax-foreign-income/residence>  
<https://www.gov.uk/tax-right-retire-abroad-return-to-uk>





## Appendix

### Tax codes

Here are the most common letters in tax codes and what they mean:

**L:** confirms you are entitled to the standard tax-free personal allowance

**M:** stands for marriage allowance and confirms that you are a recipient of a personal allowance from your spouse or civil partner.

**N:** confirms you have transferred some of your personal allowance to your spouse or civil partner

**T:** is normally referred to as a temporary tax code because HMRC is reviewing your tax code

**K:** your income has exceeded your tax-free personal allowance. For example, K467 means your income has exceeded your tax-free personal allowance by £4,670

**C:** tax regime prefix C indicates you reside in Wales, so you are taxed at the Welsh rate of income tax (WRIT)

**S:** tax regime prefix S indicates you reside in Scotland, so you are taxed at the Scottish rate of income tax (SRIT)

**BR:** means no tax-free personal allowance is due to you and all income is to be taxed at the basic rate (currently 20%)

**NT:** no tax is to be deducted

**DO:** means no tax-free personal allowance is due to you and all income is to be taxed at the intermediate or higher rate (UK = 40% SRIT = 21% WRIT = 40%)

**D1:** means no tax-free personal allowance is due to you and all income is to be taxed at the additional or higher rate (UK = 45% SRIT = 42% WRIT = 45%)

**D2:** means no tax-free personal allowance is due to you and all income is to be taxed at the top rate (only applies to SRIT = 45%)

**D3:** means no tax-free personal allowance is due to you and all income is to be taxed at the top rate (only applies to SRIT = 48%)

**OT:** means no tax-free personal allowance is due to you and all income is to be taxed at the basic, then higher, then additional rate accordingly

For further details please visit: <https://www.gov.uk/tax-codes>

**How to contact HMRC:****Telephone:** 0300 200 3300**Address:** Pay As You Earn and Self Assessment, HM Revenue & Customs, BX9 1AS, United Kingdom**Website:** [www.gov.uk/contact-hmrc](http://www.gov.uk/contact-hmrc)

Ensure the information used to calculate your Universal Credits or tax credits is correct. To renew or amend your claim go to

[www.gov.uk/universal-credit](http://www.gov.uk/universal-credit)

To find out more about tax credits go to

[www.gov.uk/browse/benefits/tax-credits](http://www.gov.uk/browse/benefits/tax-credits)

The Department for Works & Pensions (DWP) has created new materials which may help you with queries about the New State Pension, which came into effect on the 6th April 2016.

For further details please go to [www.gov.uk/new-state-pension](http://www.gov.uk/new-state-pension)

This document is based on Quilter's interpretation of the law and HM Revenue & Customs practice as at April 2026. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

The value of any tax relief will depend on the investor's individual circumstances.

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