Your SIPP and Income Tax Guide

For clients and advisers

Contents

Income tax from your pension

Taking income from a pension will involve the payment of UK income tax. Like income from employment, tax on pension income is collected at source under the Pay As You Earn (PAYE) system by HMRC.

However, while employment income is generally paid as a regular amount each month, with the tax deducted by HMRC broadly similar each month, the flexibility of pension income and the ability to take irregular payments and lump sums means that HMRC have to estimate how much tax to deduct month to month. Therefore, it is potentially only at the end of the tax year in April when any overpayment or underpayment can be settled.

The tax-free element of your withdrawals:
You are allowed to take 25% of the value of your pension free of tax at source, which can be taken as a single tax-free lump sum or as the tax-free portion of a withdrawal. For example, if you took a £2,000 Uncrystallised Fund Pension Lump Sum (UFPLS) withdrawal, £500 of this would be tax free and £1,500 would be liable for income tax. This tax-free allowance is capped at £268,275.

Uncrystallised Fund refers to pension savings that have not yet been accessed, meaning the money has not yet been taxed.

The taxable element of your withdrawals:
If you have taken 25% of the value of your pension pot tax-free as a Pension Commencement Lump Sum (PCLS), the remaining 75% is allocated to a drawdown pot that you can either take straight away as income or defer for a time in the future. This 75% is subject to tax and when taking income, the tax due is calculated in the same way as the income tax paid on earnings from employment.

The amount of tax you pay:
The amount of tax deducted will depend on how much of your taxable income is above the personal allowance, a PAYE tax code, the amount requested and when you take this within a particular tax year.

PAYE tax:
When you first start taking income from your pension, you will be taxed using a standard tax code (unless a ceding scheme provides a form P45 and tax code). This could potentially result in you paying considerably more tax than anticipated (further information on the standard tax code is available on page 5 of this guide).

Claiming back tax:
If you have overpaid tax and you are not expecting to receive further pension withdrawals in the same tax year, you must reclaim the overpaid tax directly from HMRC. Additionally, any pension income may affect the tax rate that is applied to any other UK sourced income you receive, such as employment income.

This guide briefly explains how tax is deducted from personal pensions. It is not personal advice.

You can also find out more information about tax on pensions at www.pensionwise.gov.uk/en/tax

How does living abroad affect my pension?

Your pension income is taxable under UK rules so we will deduct the UK tax under PAYE rules as 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 are tax resident in a country that has a Double Taxation Agreement with the UK, HMRC can potentially issue us a tax code of NT if the appropriate application is made to them. A NT tax code dictates that no tax is to be deducted from your pension income because you are exempt from UK income tax due to a valid Double Taxation Agreement.

It is important that your financial adviser checks the appropriate Double Taxation Agreement to ensure that this covers pensions income like that payable from a SIPP.

To establish and apply a NT tax code, a potentially taxable withdrawal must initially be paid in order to create the payroll link between HRMC and the SIPP eg. you may elect to take a UFPLS payment below 1/12th of the standard personal allowance to create this link and not have income tax deducted.

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

Further information is available on the government website:
www.gov.uk/tax-foreign-income/residence and
www.gov.uk/tax-right-retire-abroad-return-to-uk

NT application forms

HMRC has a standard claim form, plus a country specific form for tax residents in 13 countries:

- Australia
- Canada
- France
- Germany
- Ireland
- Japan
- Netherlands
- New Zealand
- South Africa
- Spain
- Sweden
- Switzerland
- United States of America

Unless you are tax resident in one of these countries, you should complete the standard claim form in order to request a NT tax code for us to apply to future pension income payments.

Understanding your tax code

HMRC will give your pension provider a tax code which reflects your personal tax position. Your tax code tells the pension provider how much tax to deduct from each income payment, including how much can be paid tax free.

HMRC will consider all sources of income - including employment income, savings interest, investments and other pension income to arrive at a final tax code.

Where the tax code is a number followed by a letter, the number indicates the amount of income your pension provider can pay without deducting tax, per tax year. If you have more than one source of taxable income, e.g. two pensions, you might have different tax codes with each provider.

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

Your tax code tells the pension provider payroll system how much tax to deduct. It is your responsibility 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 make to you.

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 via www.gov.uk/personal-tax-account.

More details can be found about tax codes at www.gov.uk/tax-codes

What tax code will we use?

Novia Global acts on behalf of HMRC, as such, we must use the tax code that we are instructed by them to use.

The typical situations that apply are:

- If we do not hold a tax code for you, we use a standard tax code. We will notify HMRC of any payments made and they should subsequently inform us of the tax code we have to use going forwards.
- If your previous pension provider sends us a P45 (in respect of a pension in payment that they have transferred to us) for the same tax year as the payment we are making, we will use this tax code printed on the P45.
- If we already hold a tax code for you, we will continue to use that tax code until instructed otherwise by HMRC.

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 an incorrect tax code. For further information please visit www.gov.uk/tell-hmro-change-of-details/income-changes.

Standard Tax Code

The standard tax code is the code which will be used when you start to take a taxable income from your pension, (unless you have a valid P45). The standard tax code used for the 2025/26 tax year is 1257L Week1, Month1.

This code assumes you can receive £12,570 a year without deduction of tax, broken down over the year into 12 equal chunks. It means the first £1,048 (i.e. £12,570 divided by 12) of any taxable payment can be paid tax free; the next £3,142 will be taxed at 20% and the next £7,286 taxed at 40%. Any amount in excess of £11,476 would be taxed at 45%.

This code doesn't take other income into account and assumes you will receive the same amount each month, so it's likely to result in the incorrect amount of tax being deducted initially. This code will be used until HMRC provide us with your personal tax code. HMRC may update this tax code as your tax circumstances change.

If you withdraw further payments in the same tax year they should include any over or underpayment of tax to date and may result in tax being repaid.

Understanding your tax rate

After you take the tax-free element of your pension, any further withdrawals are subject to income tax. Income tax will be deducted via Pay As You Earn (PAYE).

This is similar to how your employer would have deducted tax. However, no National Insurance is taken from pension payments, whatever your age. The income you take will be added to any other income you receive in that tax year, so taking large withdrawals could push you into a higher tax bracket.

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.

Taxable Income Bands (2025/2026):

- Basic Rate: Annual Taxable Income of £1 to £37,700

  Tax Rate of 20%

- Higher Rate: Annual Taxable Income of £37,701 to £125,140

  Tax Rate of 40%

- Additional Rate: Annual Taxable Income of over £125,140

  Tax Rate of 45%

If you live in Scotland or Wales then your income tax bands and rates may be different.

Understanding when you will be paid and how this affects your tax bill

The UK tax year runs from the 6th of April to the following 5th of April. For example, 6th April 2023 to 5th April 2024 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:

- Your individual tax code
- The payment frequency of income drawdown
- The tax period paid in

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

What is the Week 1/Month 1 basis?

If there is an W1/M1 at the end of a tax code (e.g.1257L M1), then tax is calculated on a Month 1 basis.

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.

W1/M1 example:

If you choose to be paid monthly, 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.

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.

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

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 considering any tax you've already paid in the same tax year and how much of your accumulated tax-free personal allowance and income tax bands have been used up.

Cumulative example:

If a payment is made on 28 May – i.e. in the second tax month of the tax year – the tax deducted will take into account the income paid between 6 April and 28 May as well as 2/12ths of the tax allowances and income bands indicated by your tax code.

If a payment is made on 28 March – in the 12th tax month of the tax year – the tax deducted will be based on all the income paid in the tax year and 12/12ths (100%) of your allocated tax-free allowance and tax bands. In practice regular payments should have equal tax taken off, but those taking single or irregular payments early in the tax year could initially be over-taxed.

Claiming back overpaid tax

As explained previously, income tax deducted from pension payments paid through PAYE is an estimate of the tax you should pay. There is a possibility that the amount of tax we deduct is not going to be the right amount of tax that you should pay for the complete tax year.

This is especially true when we make your first drawdown income payment.

Every time a regular or a one-off taxable payment is processed, if you have a cumulative code, then your liability for income tax will be reviewed and any tax due will automatically be paid. If you do not have any further 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 Novia Global if you ask for another income payment in the same tax year and we have a cumulative tax code to use.
Therefore if you are not having another payment, you will need to claim back any overpaid tax from HMRC. The normal process is for HMRC to review your liability after of the tax year (5th April) and issue a tax calculation to you detailing any overpayments or underpayments relevant to your circumstances.

More details about this can be found at 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. You can ask HMRC for one of the following forms:

- P50Z form – If you have withdrawn your entire pension and have no other income.
- P53Z form – If you have withdrawn your entire pension and have other sources of income.
- P55 form – If you have not withdrawn your entire pension and won't withdraw further pension income in the current tax year.

If you live outside the UK, please contact HMRC directly on +44 135 535 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.

For further information you can visit www.gov.uk/claim-tax-refund.

Or you can contact your local tax office.

Risks

Novia Global makes available a broad range of different investments. As with any money put into these investment vehicles there are risks. The value of these investments can fall as well as rise and you may get back less than your original investment. Charges taken by Novia Global, the managers of the underlying investment and those by your Professional Advisers will all have an impact on the value of your investment. Charges are made clear from the outset but may change in the future as circumstances may dictate.

Tax rules and tax relief are dependent on individual circumstance and are always subject to change.

Please refer to the Novia Global Key Features document and Terms and Conditions for more information to make sure you understand our services and for any specific risks that may affect you, please speak to your Professional Adviser.

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