Taking your entire pension pot as cash

You have the option of taking your entire pension pot as a single cash lump sum.

25% of this will usually be tax-free (subject to any allowances) but the rest will have tax deducted as income.

It's important you shop around to find the best option for your personal circumstances and income goals. It's a big decision so it's worth comparing what each provider can offer. Pension Wise is a government service from MoneyHelper. This free and impartial service helps you understand your options for using your pension pot, so you can choose the right one for you.

We always recommend that you seek independent financial advice before proceeding. To find an adviser in your local area visit unbiased.co.uk. Advisers usually charge for their services.

Taking money from your pension pot could increase the tax you pay on any income that you receive in the same tax year. This means you might be required to pay a higher rate of income tax than you would otherwise usually pay. This may also mean you have to complete a self-assessment tax return.

Example:

Liz is 61 and has decided that she would like to take all the money from her pension pot as cash. She doesn't want to stop working yet, but she has some debt that she would like to pay off before she starts making plans for her retirement.

Her pension pot is worth £50,000, which means Liz can take £12,500 as a tax-free lump sum to pay off her outstanding debts.

The value of her pension pot after taking her tax-free cash is £37,500. This will be added to her other taxable income, in order to work out the level of income tax she will have to pay on this amount.

A 'personal allowance' is the amount of money you can earn before you have to start paying tax. This is currently £12,570 for most people, including Liz.

Earnings above the personal allowance up to £37,700 pay income tax at the basic rate of 20%. Earnings above that, up to £125,140, pay tax at the higher rate of 40%.

Here's how that all breaks down:

Value of Liz's pension pot after tax-free cash	£37,500
Employment income	£18,000
=	£55,500
Minus the personal allowance of	£12,570
Total taxable income	£42,930
Amount subject to basic rate tax	£37,700
Amount subject to higher rate tax	£5,230
Income tax payable	£9,632

Liz's total taxable income is £42,930 which means that the first £37,700 is subject to basic rate tax of 20%, and £5,230 is subject to higher rate tax at 40%. This means she will pay £9,632 in income tax this year.

Note: This will be deducted at the emergency tax rate, however, HM Revenue & Customs will refund the difference at the end of the tax year or Liz could apply for the refund sooner if she wants to. However, it means that the amount of tax deducted initially is more than £9,632 until the refund or adjustment is made.

These figures are calculated for the 2024/2025 tax year.