



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 but the rest will have tax deducted as income.

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 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 **£20,000**, which means Liz can take **£5,000** as a tax-free lump sum to help pay off her outstanding debts.

The value of her pension pot after taking her tax-free cash is **£15,000**. 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.

Here's how that all breaks down:

Value of Liz's pension pot after tax-free cash	£15,000
Employment income	£18,000
=	£33,000
Minus the personal allowance of	£12,570
Total taxable income	£20,430
Income tax payable	£4,086

Liz's total taxable income is **£20,430** which means she is subject to basic rate tax of **20%** on her income from all sources. This means she will pay **£4,086 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 £4,300 until the refund or adjustment is made.

These figures are calculated for the 2023/2024 tax year.

