TECHNICAL NOTE
SARAH'S PENSION - CASE STUDY HIGHER RATE TAX PAYER

Scottish Widows Platform

For Professional Advisers only

The retirement rules offer freedom to manage income in the way the client wants, but they also create some challenges.

In particular, it can be difficult to work out the best way to withdraw cash from a pension. This short case study shows three potential ways that a client, who is a 40% higher rate UK (non-Scotland) taxpayer, with a £150,000 pension pot could access their money. As you can see, the tax situation varies significantly, depending on the way the savings are used. An adviser can help identify the most tax-efficient way for a client to access their pension savings.

Pension Fund £150,000		
Option 1	**Option 2**	**Option 3**
Full Encashment – Uncrystallised Funds Pension Lump Sum (UFPLS)	Partial Encashment – Uncrystallised Funds Pension Lump Sum (UFPLS)	Partial Encashment – Flexi-Access Drawdown
£150,000 lump sum withdrawal	£37,500 lump sum withdrawal	£37,500 lump sum withdrawal
Tax free cash £37,500	Tax free cash £9,375	Designates (crystallises) £150,000 into Drawdown Tax free cash £37,500
Taxable lump sum £112,500*: £6,320 at 0% = £0 £37,700 at 20% = £7,540 £68,480 at 40% = £27,392	Taxable lump sum £28,125*: £12,570 at 0% = £0 £15,555 at 20% = £3,111	Balance £112,500*** (remains invested)
Total tax = £34,932** Sarah receives £115,068 net	**Total tax = £3,111**** Sarah receives £34,389 net	**Total Tax = £0** Sarah receives £37,500 net

Notes

The above examples are based on UK tax rates and bands for the 2024/25 tax year. For Scottish taxpayers, the Scottish Rate of Income Tax may produce a different result to the rest of the UK due to the different tax rates and bands. For Welsh taxpayers, the overall rates of income tax payable will be the same as UK taxpayers (excluding Scotland).

* Emergency Code Month 1 Basis
** Tax overpayment can be claimed back from HMRC
*** Taxable at marginal rate as 'earned income' when withdrawn

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0330 024 2345 service@scottishwidowsplatform.co.uk scottishwidows.co.uk/platform

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