

TECHNICAL NOTE

TOM'S PENSION - CASE STUDY (BASIC RATE TAX PAYER)

Scottish Widows Platform

For Professional Advisers only

The retirement rules offer freedom to manage income in the way the individual 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 an investor, who is a 20% basic rate UK (non-Scotland) taxpayer, with a £100,000 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 ways for the investor to access their pension savings.

PENSION FUND £100,000		
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
£100,000 lump sum withdrawal	£25,000 lump sum withdrawal	£25,000 lump sum withdrawal
Tax free cash £25,000	Tax free cash £6,250	Designates (crystallises) £100,000 into Drawdown Tax free cash £25,000
Taxable lump sum £75,000*: £1,409 at 0% = £0 £3,142 at 20% = £628 £7,287 at 40% = £2,915 £63,162 at 45% = £28,423	Taxable lump sum £18,750*: £1,409 at 0% = £0 £3,142 at 20% = £628 £7,287 at 40% = £2,915 £6,912 at 45% = £3,110	Balance £75,000*** (remains invested)
Total tax = £31,966** TOM receives £68,034 net	Total Tax = £6,653** Tom receives £18,347 net	Total Tax = £0 Tom receives £25,000 net

Notes

The above examples are based on UK tax rates and bands for the 2023/24 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*** Taxable at marginal rate as 'earned income' when withdrawn



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Every care has been taken to ensure this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change.

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