

# Pension liberation and tax

Pension liberation means cashing in or accessing your pension early, and before you are allowed to, under the pension tax rules. You may have been targeted and approached to unlock your pension or you may have received a payment from your pension scheme.

If you have taken out money too early, some or all of your pension savings are at stake. You could face a tax bill of more than half of the pension savings that you accessed including amounts paid in fees and monies received as cashback incentives. You may also have to pay tax penalties and interest so you need to act now.

Read on to find out what you need to do and how we can help.

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## Pension tax rules

Saving in a registered pension scheme is intended to be a tax efficient, long-term investment which should provide benefits for your retirement.

To encourage people to save for their retirement, the government adds tax relief to your pension contributions. Any income or gains your pension scheme makes from investing your savings are normally tax-free.

By the time you retire, more than half the value of your pension savings can consist of tax reliefs. The pension tax rules protect the tax relief given on pension savings and are designed to make sure that these savings are used to produce an income throughout your retirement. These rules set out how pension savings can be accessed and the tax charges that apply, to claw back tax reliefs, where the conditions are not met.

The tax charges are known as unauthorised payment charges and will apply, for example, where someone accesses their pension savings before reaching age 55 where there is no special provision to do so. Other forms of liberation include offers of personal loans or cashback incentives to tempt savers to cash in their pension pots early.

### Pension liberation

Some products claim to unlock, liberate or give early access to savings. Anyone receiving money from their pension scheme before age 55 will usually be subject to tax charges aimed at clawing back tax reliefs.

In some instances the products offer questionable investments as a means to extract value from pension savings. The tax charges may not apply to these investments but will continue to apply to anything you have received, directly or indirectly, from your pension scheme before age 55.

### Have you broken the pension tax rules?

You must normally be at least 55 before you start taking your pension.

If you access your pension savings before age 55, except in circumstances permitted by the pension tax rules, this will be an unauthorised payment.

Where an unauthorised payment is made to you, including where you access your pension savings before age 55, the payment is subject to tax charges.

## Help

If you are in this situation or think you may have been affected by pension liberation and would like more help and advice phone the Pension Schemes Services Helpline on **0845 600 2622**.

For more information about pension liberation, go to [www.hmrc.gov.uk/pensionschemes/liberation.htm](http://www.hmrc.gov.uk/pensionschemes/liberation.htm)

To contact us for more information about other pension matters, go to [www.hmrc.gov.uk/contactus](http://www.hmrc.gov.uk/contactus)

## Interpretation service

We offer an interpretation service, 'thebigword', to help those whose first language is not English. If you would like to use this service, please tell us straightaway when you contact us.

## Your rights and obligations

*Your Charter* explains what you can expect from us and what we expect from you. For more information, go to [www.hmrc.gov.uk/charter](http://www.hmrc.gov.uk/charter)

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We have a range of services for people with disabilities, including guidance in Braille, audio and large print. Most of our forms are also available in large print. Please contact us on any of our phone helplines if you need these services.

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## Pension tax charges

### If you did not get any money from the pension scheme

If your savings have remained in a valid HMRC recognised pension scheme or your money has:

- disappeared
- been stolen
- been locked away by the pension scheme in questionable investments

you are unlikely to be subject to unauthorised payment charges on these funds.

### If you get money from the pension scheme, how much tax will you have to pay?

The tax charges can be up to 70 per cent of the liberated funds. The tax charges include:

- up to 55 per cent for you as the scheme member
- between 15 and 40 per cent for the scheme administrator.

These tax charges reflect:

- the tax relief received on your pension savings
- any money you accessed
- any associated fees you agreed to pay
- any cashback you received.

### If you received an unauthorised payment

You will need to arrange for the tax to be paid. You can do this by completing a tax return telling us about your liability to the unauthorised payment charges.

If you delay contacting us you may face further penalties and interest. We will contact you setting out the tax you owe and asking you to pay this - you might not get the letter until after you've spent the money. If you have not spent the money don't, as you will have to pay the tax due.

### If you did not know you broke the rules, do you still have to pay the tax charges?

Yes, you will still have to pay the tax charges if unauthorised payments have been made even if you:

- did not understand or realise that you'd broken the pension tax rules
- offer to put the money back in your pension scheme
- have spent the money
- have already paid a company a fee to access your pension early, even if they assured you there were no further charges.

### You did not take payments out of the scheme, you have taken a loan. Why are you still facing tax charges?

Certain other pension scheme transactions are also classed as unauthorised payments. For example you can't take a loan from your pension savings as they are subject to the same unauthorised payment charges.

### How to pay the tax charges

You can use your credit card, debit card, cheque, or Direct Debit to pay HMRC.

### If you are unable to pay the tax charges

If you can't pay your tax bill immediately, the most important thing is not to ignore it. If you can't pay the bill straightaway, you may be able to arrange to pay it later.

If your bill is right but you can't pay, you must get in touch with HMRC as soon as you can. If you don't your bill will increase. This is because penalties and interest will be added.

If you get in touch straightaway, you may be able to avoid paying penalties and come to an arrangement to spread your payments over a period of time. You will need to discuss your financial position openly with HMRC and bring any outstanding tax affairs up to date.

### Example of an unauthorised payment - accessing money from a former employer's pension scheme

Bill gets a text message asking him if he wants to release money from his pension. He finds out he has £28,000 in his former employer's pension scheme and agrees to transfer it to another scheme.

Because he's short of money and wants access to cash quickly, he accepts that he'll lose £10,000 in fees to the new pension scheme or adviser. He gets £10,000 and spends it. The £8,000 left stays in the pension scheme and is invested so is not subject to a tax charge.

HMRC investigates the transfer and because Bill is 42, he has broken the rules by taking some of his pension early as a lump sum. HMRC writes and tells him he has to pay a tax charge of £11,000 (55 per cent of the £20,000 paid out of his pension savings).

Bill must pay the tax charge, not the pension scheme. The tax charge is in addition to the £10,000 Bill has already paid in fees.

If Bill takes further money from this scheme before he reaches age 55, he will have to pay a further tax charge.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

HMRC Digital Service

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