

Tax on income lump sums in 2026/27

This document explains how your lump sum payment has been taxed.

Pension income is taxed under PAYE as earned income.

Note that we have no discretion over the operation of tax codes, or the amount of tax deducted from your pension payment.

How much tax will be deducted from my income?

If we have had a P45 for the current tax year from your previous pension provider, or if HMRC has already provided us with your tax coding notice, then we will apply that tax code to your income. If not, then HMRC requires us to pay your income using the emergency tax code until it provides us with a replacement (see below).

What happens if my income needs to be calculated using the emergency tax code?

If we do not have or cannot use your actual tax code, we must use the temporary rate tax code (known as the emergency tax code), which for the 2026/27 tax year is 1257 X (in England and Northern Ireland), S1257 X (in Scotland) or C1257 X (in Wales).

The emergency tax code works on what is known as a 'month 1' basis. This means that the calculation used will have only allocated 1/12th of your tax-free personal allowance to your lump sum. We are required by HMRC to use this calculation method even if the lump sum is the only payment made in that tax year.

How can I check the tax due?

You can check the tax due on a payment using the HMRC calculator at: <http://payecalculator.hmrc.gov.uk/PAYEO.aspx>

How do I get a tax refund from HMRC?

If you have overpaid tax, we are not allowed to make ad hoc tax refunds.

HMRC may provide us with a new tax code at any time throughout the year to correct your tax position for future income payments from your pension. In some circumstances you may be able to reclaim any overpaid tax before the tax year end.

If the lump sum payment:

- used up your pension pot and you have no other income, complete form P50Z
- used up your pension pot and you have other taxable income, complete form P53Z
- did not use up your pension pot and you are not taking any more payments from the plan in this tax year, complete form P55
- did not use up your pension pot, then any further income payments will carry on being taxed under the current tax code unless HMRC issues us with a revised tax code.

If you are still unsure about the tax you have paid you should speak to your financial adviser, or you can get more information and get in touch with HMRC by calling 0300 200 3300 or via the following link on its website:

<https://www.gov.uk/claim-tax-refund/you-get-a-pension>

Please note that we are unable to speak to HMRC on your behalf.

