Your Future Compass

RETIREMENT GUIDE

Emergency tax on your first pension withdrawal: why you get less than you expected

The first time you take money flexibly from a pension, your provider usually has no tax code for you, so it taxes the payment as though you were going to take the same amount every month for a year. That squeezes a single withdrawal through one twelfth of every band, and the bill can be several thousand pounds more than you actually owe. It's refundable, and largely avoidable.

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Emergency tax on your first pension withdrawal: why you get less than you expected

Guidance and illustrations only, not regulated financial advice. The figures here are illustrative arithmetic on the 2026/27 thresholds, not a projection of your own plan. What your provider deducts depends on the tax code your provider has for you and on your other income; consider speaking to a qualified, regulated financial adviser about your own position.

The short version

The first time you take money flexibly from a defined-contribution pension, your provider usually has no tax code for you. HMRC's rules say it must then use an **emergency code on a "month 1" basis**, which treats that single payment as though it were the first of twelve identical monthly payments.

So a one-off withdrawal is taxed as if it were an annual income twelve times the size. You get one twelfth of the personal allowance, one twelfth of the basic-rate band, and the rest is charged at higher and even additional rates that your real income never reaches.

The money is not lost. It's refundable, and often the whole situation can be sidestepped. But the first payment can land several thousand pounds lighter than expected, which is a difficult surprise if you were counting on it for something specific.

Why it happens: the year divided by twelve

On the frozen 2026/27 thresholds, the annual figures are a £12,570 personal allowance, a £37,700 basic-rate band (so 20% up to £50,270), 40% to £125,140 and 45% above that.

An emergency month-1 code divides each of those by twelve:

	FOR A FULL YEAR	ON A MONTH-1 CODE
Tax-free	£12,570	**£1,047.50**
Top of the 20% band	£50,270	**£4,189.17**
Top of the 40% band	£125,140	**£10,428.33**

Everything above £10,428.33 in that single payment is taxed at 45%. Not because you are an additional-rate taxpayer, but because the calculation assumes you are about to do the same thing again every month.

A £10,000 withdrawal, worked through

Suppose £10,000 comes out of an untouched pot as a single payment. A quarter is tax-free, so £2,500 arrives without deduction and £7,500 is treated as taxable income. On an emergency month-1 code, that £7,500 is sliced like this:

SLICE	AMOUNT	RATE	TAX
Tax-free (a twelfth of £12,570)	£1,047.50	0%	£0.00
Basic rate (a twelfth of £37,700)	£3,141.67	20%	£628.33
Everything above	£3,310.83	40%	£1,324.33
Total taxable	**£7,500.00**		**£1,952.67**

So £10,000 requested, **£8,047.33 received**.

Now compare that with the tax actually due for the year:

- **If this is your only taxable income that year**, the £7,500 sits entirely inside your £12,570 personal allowance. The correct bill is **£0**, and the whole **£1,952.67** is an overpayment.
- **If you also have £20,000 of other income**, your allowance is already used, so the £7,500 is taxed at 20% and the correct bill is **£1,500**. The overpayment is **£452.67**.

The pattern is worth holding on to: the less other income you have, the worse the emergency calculation looks, because it charges 40% on money that your real allowance would have covered entirely.

The larger the withdrawal, the stranger the result

Emptying a £30,000 pot in one go makes the effect much more visible. £7,500 is tax-free, £22,500 is taxable:

SLICE	AMOUNT	RATE	TAX
Tax-free (a twelfth of £12,570)	£1,047.50	0%	£0.00
Basic rate	£3,141.67	20%	£628.33
Higher rate	£6,239.17	40%	£2,495.67
Additional rate	£12,071.67	45%	£5,432.25
Total taxable	**£22,500.00**		**£8,556.25**

£30,000 requested, **£21,443.75 received**.

With no other income that year, the correct bill is £22,500 less the £12,570 allowance, taxed at 20%: **£1,986**. You should have received £28,014. The emergency code has held back **£6,570.25** more than you owe, and it has charged 45% on £12,071 belonging to someone whose actual taxable income for the year is under £23,000.

When it does not happen

Not every withdrawal is taxed this way. The emergency code applies when your provider has no up-to-date code for you, which is usually only true of the first flexible payment.

- **Later withdrawals in the same year** are normally fine, because by then HMRC has issued your provider a proper code.
- **Taking only tax-free cash** produces no taxable payment, so there’s nothing to tax.
- **A small pot lump sum** (a pot under £10,000, and you can generally do this with up to three personal pensions) is taxed differently and does not carry the same problem.
- **Regular income already in payment**, such as an annuity or a scheme pension, comes with a code already in place.

Getting the money back

You do not have to wait until the end of the tax year, though you can. HMRC has three forms, and which one applies depends on what you did:

YOUR SITUATION	FORM
Took part of the pot, left the rest, not taking regular payments	**P55**
Emptied the pot, and you have other taxable income	**P53Z**
Emptied the pot, and you have no other taxable income	**P50Z**

HMRC aims to repay within **30 days** of a correct claim.

If you do nothing at all, it still resolves. Either later payments in the same tax year are adjusted through PAYE, or HMRC reconciles it after 5 April and issues a refund, or it appears in your Self Assessment. The difference is timing, and it can be many months, which matters if you took the money for a reason that will not wait.

The order that avoids it

Because the emergency code applies only while your provider lacks a proper one, a common approach is to make the first withdrawal a **small** one. That payment is still taxed oddly, but on a small amount the overpayment is small too, and it prompts HMRC to issue your provider a real tax code. Later withdrawals in the same tax year are then taxed on that code instead.

Whether this suits your situation depends on your provider's minimum withdrawal, how quickly codes come through, and what you are taking the money for. It's worth asking your provider what code it currently holds for you before you request anything large.

The other thing a first withdrawal can trigger

Worth knowing before you take taxable income rather than after. Once you take **taxable** income flexibly from a defined-contribution pension, the **money purchase annual allowance** applies, and the amount that can be paid into your defined-contribution pensions each year drops to **£10,000**.

Taking only your tax-free cash does not trigger it. Neither does a small pot lump sum. But a modest taxable withdrawal made purely to establish a tax code does, so if you are still working and paying into a pension, that's a real trade-off rather than a technicality. There's more on this in when can I access my pension?.

What this means for a plan

Emergency tax is a cashflow problem rather than a planning one. Over a full tax year the right amount of tax gets paid either way, so it does not change what your pension can support across a retirement. What it changes is **when** the money arrives, and by how much the first payment undershoots.

That matters in two situations in particular: when a withdrawal is earmarked for something with a date attached, and when someone empties a pot in one go and sees a deduction large enough to make them think they have made a mistake.

The wider point is the one the arithmetic above keeps making. **The size and timing of a withdrawal change the tax on it**, not just the amount you end up with. Spreading the same total across two tax years, or keeping a year's taxable income inside the basic-rate band, can produce a materially different lifetime tax bill from taking it all at once. That's the part worth modelling rather than estimating, and it's what the tax and drawdown views in the app are for.

Where to get free, impartial help

For free, impartial guidance, the government's MoneyHelper service covers pensions and tax, and over-50s can book a free Pension Wise appointment to talk through taking money from a pension. HMRC's own guidance covers the reclaim forms. For your own circumstances, speak to a qualified, regulated financial adviser or a tax adviser.

Related reading: the 25% tax-free lump sum explained covers the tax-free side and its cap, pension drawdown explained covers taking income in stages to manage the band it falls in, and when can I access my pension? covers the ages and the money purchase annual allowance.

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