Barcelona, January 10, 2025

In 2025 Pension Plans can be cashed in early: cases and tax impact

One of the most high-profile legislative changes of the new year is the **possibility, starting January 1, 2025, to cash in early the contributions made to pension plans before December 31, 2015.**

Final Provision 1.2 of Law 26/2014 amended Article 8 of the Pension Plans and Funds Regulation Law to allow the **early withdrawal, without any specific contingency, of consolidated rights corresponding to contributions that are at least 10 years old.**

Until now, pension plan withdrawals were only allowed if a specific contingency occurred, which included the following:

- Retirement
- Long-term unemployment
- Being affected by a redundancy (ERE)
- Suffering from a serious illness or severe dependency
- Death of the participant

Starting January 1, 2025, pension plan funds can be withdrawn without the need for any of the aforementioned contingencies. The only requirement is that the contributions to be cashed in are at least 10 years old.

There are several ways to withdraw from pension plans:

- **Lump sum**. The full amount of the consolidated rights is cashed in at once.
- **Periodic annuity**. A specific amount and frequency are set, which could be monthly, quarterly, semi-annually, etc.
- **Mixed form**. A combination of the two previous options
- **Discretionary withdrawal**. The participant can withdraw consolidated rights at any time for the amount requested, without any set frequency.

Early withdrawals of consolidated rights will be taxed under the same conditions as withdrawals made up to this date in the Personal Income Tax (IRPF).

The consolidated rights withdrawn during the year **will be considered employment income and will increase the general taxable base of the IRPF**, meaning they will be taxed at the marginal rate.

Until now, consolidated rights corresponding to contributions made before January 1, 2007, enjoyed a 40% reduction when withdrawn as a lump sum.

A query has been submitted to the Directorate General of Taxes (DGT) to clarify whether early withdrawals in lump sum form, without a contingency, will still benefit from this tax reduction.

The option for early withdrawal is compatible with making contributions to the pension plans to cover future contingencies.

Since any decision regarding this new possibility of early withdrawal will have significant fiscal effects, we recommend that you consult us before making any decisions.

As always, you can contact us via email, phone, or through the form on our website. We are at your disposal.

Sincerely,

The BAa Team
Tax Department

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