

Making pension tax relief work for you

The idea behind tax relief is to encourage people to save for retirement. By helping the value of your savings for retirement to increase with money that would otherwise have gone to HMRC. This doesn't mean you won't have to pay tax on that money in the future, simply that you don't have to pay tax on it now.

IN THIS GUIDE WE COVER:

- How tax relief could work for you
- How much you can pay into your pension plan
- How you may be able to make higher tax-efficient contributions to your pension plan in this tax year

How much is tax relief worth to you?

Generally, the more tax you pay the more valuable tax relief will be to you. In summary, a £1 contribution today typically costs you 80p if you live in the UK and are a basic-rate taxpayer, as little as 60p if you're a higher rate taxpayer and 55p if you pay additional rate tax. Exactly how it works will depend on the way your pension plan (your pension) operates its tax relief.

The table below shows some worked examples based on different rate UK tax payers. The key thing to look at is the 'effective cost'. This is the overall cost to you to make the total contribution amount shown in the first column.

	Basic rate taxpayers 20%		Higher rate taxpayers 40%		Additional rate taxpayers 45%	
Your total contribution amount	Amount of tax relief up to	Effective cost as little as	Amount of tax relief up to	Effective cost as little as	Amount of tax relief up to	Effective cost as little as
£10,000	£2,000	£8,000	£4,000	£6,000	£4,500	£5,500
£40,000	£8,000	£32,000	£16,000	£24,000	£18,000	£22,000
£100,000	-	-	£40,000	£60,000	£45,000	£55,000
£130,000	-	-	-	-	£58,500	£71,500

These examples are not tailored to individual circumstances. All tax rules may change in future. Tax treatment (including the amount of tax relief you receive) and eligibility to invest in a pension depends on personal circumstances. You must pay sufficient tax at the higher or top rate to claim the full higher (40%) or top (45%) rate tax relief and to receive tax relief, your personal contributions can't be any higher than your earnings.

Other pension tax benefits

The tax relief on pension contributions comes on top of the other tax benefits available through pensions:

- The investments in your pension are free from income and capital gains tax, which can make a significant difference to the value of your pension pot over the years.
- Typically, anytime from the normal minimum pension age*, you have the option of taking up to 25% (or sometimes more) of your pension as a tax-free lump sum. You are free to spend or invest this as you like, though you cannot reinvest it into another pension plan.

* Withdrawals from a pension product will not normally be possible until you reach age 55, this is due to rise to 57 on 6 April 2028.

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Rates of tax relief for Scottish Residents differ to the rest of the UK.

How do I claim my tax relief?

This depends on how much you earn, what rate of Income Tax you pay and the type of pension you have. In many cases it's all handled by your pension provider. However, if you pay tax at a rate above the basic rate of 20% and have contributions going into a personal pension, you may need to claim any extra tax relief you're entitled to. Here's what you need to know:

Personal pensions

Personal pensions, including self invested personal pensions (SIPPs), stakeholder pensions and those provided through the workplace like a group personal pension use the 'relief at source' method. Here basic rate tax relief (currently 20%) is always applied to contributions that you or anybody other than an employer pay on your behalf. It is claimed by your pension provider and added to your pension pot. This means that if you only pay Income Tax at the basic rate or lower, including if you are not a taxpayer, you will not need to do anything else. So, if you made a personal contribution of £800 from your take home pay in to a personal pension, tax relief of 20% (currently) is applied automatically so the gross contribution in this example is £1,000. You can calculate the gross contribution amount you intend to pay by dividing the net contribution by 0.80 (100% - 20%). This is the amount that will appear in your account shortly after the contribution has been paid.

If you pay tax at a rate higher than 20% you may be able to claim back more tax on pension contributions. This can be done via your tax returns, or in certain cases simply by writing to HMRC with full details of your pension payments, plus your National Insurance number and taxpayer reference.

Workplace pensions

Most workplace pension plans use a different method to secure tax relief, called 'net pay'. In these schemes pension contributions are taken from your gross pay before any tax is deducted. This means less of your income is taxed by the employer and you'll get full tax relief, unless your earnings are too low for you to pay income tax at all. You will not need to claim anything back from HMRC.

Salary sacrifice

Some workplace pensions operate optional salary sacrifice schemes as another way to make contributions. Salary sacrifice is a way of paying into your pension without reducing your take home pay.

How does it work?

You give up salary necessary to achieve the same net income as you would have received had you made the same pension contributions to your employer's workplace pension plan. This amount is then paid into your pension as an employer contribution (rather than a personal contribution). You and your employer pay less national insurance. Contributions and national insurance that you save, and any national insurance saving that your employer is willing to pass on, is paid into your pension as an employer contribution. This then means that your take home pay will remain the same and the total amount contributed to your pension will increase.



Examples of tax relief if you're contributing to a personal pension



James stays at home to look after his children, no salary.

James receives an inheritance and pays £800 into his pension. Even though he doesn't pay Income Tax, James' pension contribution is topped up to £1,000 with tax relief. You can pay £2,880 into a pension plan and have it topped up to make a total contribution of £3,600.



Tim – engineer, salary £60,000.

Tim puts £800 of his overtime pay in a pension. Tim's contribution is topped up to £1,000 with basic rate tax relief, and because he earns enough to pay higher-rate Income Tax, he could then claim up to a further 20% tax relief. He gets a refund for £200 from HMRC so it has effectively cost him just £600 to put £1,000 in a pension.

Examples of tax relief if you're contributing to a trust based workplace pension



Cheryl – clerical worker, salary £20,000.

Cheryl receives a bonus of £1,000. She asks her employer to pay the money into her pension which her employer arranges. Because the money is paid straight into Cheryl's pension, she does not need to pay any tax on the money as nothing is being paid to her. She ends up with £1,000 in her pension and saves herself £200 in tax (which is the amount she would have paid once Income Tax at the basic rate of 20% had been applied before the bonus was paid to her).



Simone – project manager, salary £80,000.

Simone makes a one-off pension payment of £1,000. Her payment is not taxed so £1,000 goes straight into her pension. Because Simone earns enough to pay higher rate Income Tax, she benefits from tax relief of £400 (40% on the £1,000 she would ordinarily have paid tax on). Her pension has an extra £1,000 in it, but the overall cost to her is only £600.

These examples are based on UK Tax Rates. The tax paid and relief given for Scottish Residents are different.

How much can you pay in?

Each tax year, you're entitled to tax relief on pension contributions up to the highest amount below that applies to you:

- £3,600 if you have no or very low earnings
- 100% of your salary if you earn less than £60,000
- £60,000.

Exceed the limit that applies to you and a tax charge may become payable. This effectively claws back any excess tax relief given at source.

- So, if you earn £30,000, you could pay £24,000 into your pension and have it topped up by £6,000 to make a total contribution of £30,000, equal to the amount you earn.
- On the other hand, if your salary is £80,000, the most you could personally pay in to pensions in one year for tax relief purposes without making use of carry forward (see below for details) is £60,000. Remember this is the amount after tax relief has been applied. This means that if you are in a relief at source scheme (explained on page 3) you can contribute £48,000 which will have £12,000 of tax relief added, taking you up to the annual allowance of £60,000. As you'll be paying Income Tax at higher than the basic rate of Income Tax you could then claim further tax relief through your tax return.
- Even if you have no earnings at all, and therefore pay no tax, you can pay £2,880 into a pension plan and have it topped up to make a total contribution £3,600.

You should remember that the annual limit you can receive tax relief on for your pension contributions includes any contributions to a pension made by an employer. If you exceed the annual allowance across all your pension savings, not per scheme, you may have to pay a tax charge on the excess known as 'the annual allowance charge'. The rate of this annual allowance charge generally will be linked to the highest rate of Income Tax you pay. See our **annual allowance guide** for more information on this.

Reduced allowance for high earners

The annual allowance is capped at £60,000 but for some higher earners i.e. those earning over £200,000 or more, this could reduce gradually from £60,000 to as low as £10,000 (for those who have 'adjusted income' of £360,000 or more). This is known as the tapered annual allowance – please call us for more information or read our **tapered annual pension allowance guide**.

Reduced allowance after withdrawals

Once you have taken taxable money out of your pension savings, your annual allowance will probably be reduced. This is known as the money purchase annual allowance (MPAA), and you can find out more about this in our **MPAA guide**.

Make use of unused allowances to contribute more

If you have used up your annual allowance for the current tax year but want to contribute more to your pension and still benefit from the tax relief, you may be able to do so by using carry forward. Carry forward allows you to make use of any unused annual allowance from the three previous tax years.

You'll still need to have relevant earnings in the current tax year, equivalent to the amount you want to contribute and other conditions may also apply. For more information on this and examples of how this works you may find our **carry forward guide** useful.

For more information on the pension tax allowances and access to our useful guides please visit our **website**. Alternatively please speak with your adviser if you have one.

If you are unsure how tax relief works and how the annual allowances may relate to you, we suggest that you speak to your financial adviser or a tax specialist if you have one or any authorised adviser.

The information in this guide is correct as at 6 April 2025.





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