



Tax relief - a guide for pension members

Tax Relief

One of the biggest advantages of being a member of a pension arrangement is the tax relief you will receive on the contributions you pay. This guide looks at how tax relief operates for those with Personal Pensions and Stakeholder Pensions (including Group arrangements). Other pension arrangements (for example multi-employer arrangements, such as NEST) may also use this basis.

Who is eligible to receive tax relief on their pension arrangement?

In order to receive tax relief on the pension contributions you pay, you must be aged under 75 and classed as a “relevant UK individual”. A relevant UK individual is someone who:

- Has earnings during the tax year that are subject to Income Tax in the UK; or
- Is resident in the UK at some point during the tax year; or
- Was resident in the UK when they joined the pension and at some point during the past five tax years; or
- Has (or their spouse has) general earnings from overseas Crown employment subject to UK tax for that year.

The tax year runs from 6th April to 5th April.

How is tax relief received?

If you are paying into a pension arrangement such as a Personal Pension or a Stakeholder Pension, basic rate tax relief is given at source. This means that the contribution net of basic rate tax is taken from your net (i.e. take home) pay. Basic Rate Tax is currently 20%. This means that if you pay a contribution of £100, only £80 will be taken from your tax home pay. However, £100 will be allocated to your pension pot once received by the pension provider. This happens automatically and you do not need to do anything to receive this.

You will receive Basic Rate Tax relief at 20% even if you are a non-tax payer or if you live in Scotland and are subject to tax at 19%.

If you are required to pay a percentage of salary into your workplace pension arrangement, this is usually the amount before any tax relief. Based on some common contribution structures, the actual amount that will be taken from your take home pay is as follows:

Personal contribution as a percentage of salary	Net percentage deducted from take home pay
2%	1.6%
3%	2.4%
4%	3.2%
5%	4%

What if I am a higher rate or additional rate tax payer?

If you are a higher or additional rate tax payer you can also claim additional relief. This is given by extending the amount of your salary that is subject to Basic Rate Tax. This means that less of your income falls into the higher rate tax bracket and you therefore pay less tax overall.

If you live in Scotland and are subject to the 21% tax rate, you can also reclaim an additional 1% tax relief on the contributions you make personally.

How do I claim higher/additional rate tax relief?

If you complete an annual tax return you can enter details of the pension contributions you have made during the tax year on this. Alternatively, you can write directly to your tax office to apply for the additional relief.

Can I backdate higher/additional rate tax relief?

If there are some years for which you haven't claim higher rate tax relief you can still apply for this. Usually HM Revenue & Customs will allow you to backdate any such applications for a maximum of four tax years.

What happens if I am using salary exchange?

If you currently use salary exchange (also known as salary sacrifice) as a way of making your personal contribution into the pension arrangement, all contributions will effectively be classed as an employer contribution. This means that if you are a higher rate or additional rate tax payer you do not need to reclaim the additional relief.

However, with salary exchange, as your salary will be reduced, you will pay less tax so the net impact will be the same. In addition you will also benefit from the National Insurance savings to be made by utilising salary exchange.

To find out more about salary exchange please visit the link below:

<http://onepc.co.uk/guides/salary-exchange/>

Will I be taxed on the contribution my employer pays?

No, employer contributions to an employee's pension arrangement are not classed as a benefit in kind and you will not be taxed on the amount your employer pays on your behalf. There are however limits as to how much you can pay into pensions with tax relief and if the total contributions paid by you and your employer exceed the Annual Allowance (standard allowance is £40,000 for 2018/19) there may be a charge payable.

How much tax relief can I receive?

You can only receive higher rate or additional rate tax relief to the extent that you pay higher rate/additional rate tax. For example, if £10,000 of your income falls into the higher rate tax bracket, you can only reclaim tax relief to this extent.

There are also limits as to how much you can pay into your pension with tax relief. These are effectively 100% of salary subject to the Annual Allowance (standard Allowance is £40,000 for 2018/19). You can also contribute up to £3,600 gross a year without reference to earnings. This is equivalent to £2,880 net per annum.

Some people may have a lower Annual Allowance than the standard amount. This may apply to you if you are a high earner (have a total income in excess of £150,000 per annum) or you have flexibly accessed your pension benefits.

Note that contributions are assessable for tax relief in the year they are paid, even if you are carrying forward unused allowances from previous tax years.

To find out more about contribution limits to pensions, please visit the following link:

<http://onepc.co.uk/guides/pension-contribution-limits/>

Important Notes

The information contained in this document is based on One Pension Consultancy's understanding of the legislation as at June 2018. This document is for information purposes only and does not constitute advice.

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