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Tax relief matters

How to build a bigger pension pot

If you're under 75 and have relevant UK earnings, you can benefit from tax relief when contributing to a personal pension like a Self-Invested Personal Pension Plan (SIPP) or workplace pension scheme within the annual allowance.

The government provides basic rate tax relief of 20% through 'relief at source,' which is claimed by the pension provider from HM Revenue & Customs (HMRC). For instance, if you invest £8,000 in your pension, the government adds £2,000, making your total contribution £10,000.

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Higher and additional rate taxpayers can also reclaim further tax relief on their pension contributions. In the 2023/24 tax year, the higher rate tax starts at just over £50,000 of income per year, while the additional rate begins at £125,140. The tax rates for earned income at these levels are 40% and 45%, respectively.

This means that higher and additional rate taxpayers can reclaim an extra 20% or 25% on their pension contributions. Using the previous £10,000 example, these taxpayers may be eligible for an additional refund of up to £2,000 or £2,500, respectively.

To claim this relief, follow these steps:

Contribute to a pension scheme: Ensure you're contributing to a registered pension scheme through your employer or a personal pension plan.

Check if you receive tax relief automatically: If you're part of an occupational workplace pension scheme, your employer might already deduct your contributions from your salary before applying tax. In this case, you'll automatically receive tax relief at your highest Income Tax rate.

If your pension plan, workplace or not, is a personal pension, you will usually make your contributions from after-tax income but net of 20% basic rate relief. Any higher rates of relief need to be claimed from HMRC. If your contributions are made using salary sacrifice you won't need to claim any tax back as this is given to you automatically.

Claim additional tax relief through Self Assessment: If your pension provider claims tax relief for you at the basic rate, and you're a higher rate taxpayer, you'll need to claim the additional tax relief through a Self Assessment tax return (or tax code adjustment). Register for Self Assessment on the HMRC website and complete the form annually, declaring your pension contributions.

Adjust your tax code: If you don't want to file a Self Assessment tax return, you can contact HMRC to adjust your tax code to claim higher rate relief (but not additional rate relief). Provide them with details of your pension contributions and relevant information about your income. They'll update your tax code, and you'll receive the additional tax relief through your PAYE (Pay As You Earn) system. ■

NEED SPECIFIC GUIDANCE ON YOUR RETIREMENT PLANNING SITUATION?

Remember, tax rules can change and individual circumstances may vary. It's always a good idea to consult us for specific guidance. To tell us about your situation or for advice, don't hesitate to contact us.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.