

Tax relief

When you become a pension saver, you are thinking of the future. The government will thank you, and your reward will come in the form of tax relief.

'Tax relief' essentially means reducing, or removing completely, the amount of tax you pay to the government. It literally 'relieves' you of your tax burden.

How much tax relief will I receive?

You should receive tax relief on your contributions at the highest rate of income tax you pay.

If you're a basic rate tax payer (earning between £12,571 - £50,270 a year) you will get 20% pension tax relief.

If you're a higher rate tax payer (earning between £50,271 - £150,000 a year) you are entitled to 40% pension tax relief.

If you're an additional rate tax payer (earning above £150,000 a year) you are entitled to 45% pension tax relief.

Figures correct for the tax year 22/23

Pension tax relief for non-taxpayers and low earners.

Non-taxpayers, including spouses who aren't in employment, and children, are eligible to claim for tax relief at 20%, even though they don't pay any tax. This is because eligibility is granted just by being a resident in the UK, at some point during the tax year in which you've paid your contributions (eligibility is decided by your pension provider, based on your UK residency status).

- There is a limit on the value of pension contributions on which you can receive tax relief, and this is called the Pensions Annual Allowance. For the tax year 2022/23 it has been set at £40,000 a year. This means that any payments you make to your pension over the £40,000 a year limit will be subject to income tax at the highest rate you pay.
- You can save 100% of your income into a pension and earn tax relief, so long as it doesn't exceed the Pension Annual Allowance of £40,000 a year. For example, if you earned £5,000 a year, you could save all £5,000 into a pension.
- But if you earn £3,600 a year or less (including people who don't earn any money), the maximum you can contribute is £3,600. This includes the government tax relief of 20%, (20% of £3,600 = £720) so your personal contribution can be no higher than £2,880 (£3,600 minus the £720 government tax relief).
- You can carry forward unused allowances from the previous three years, as long as you were a member of a pension scheme during those years.

To invest £100 in a pension

