



Tax relief on pension contributions

Tax relief means some of your money that would have gone to the government as tax goes into your pension instead. You can put as much as you want into your pension, but there are annual and lifetime limits on how much tax relief you get.

Tax relief on your annual pension contributions

If you're a UK taxpayer, in the tax year 2013-14 you'll get tax relief on pension contributions of up to 100% of your earnings or a £50,000 annual allowance, whichever is lower.

For example, if you earn £20,000 but put £25,000 into your pension pot (eg by topping up earnings with some savings), you'll only get tax relief on £20,000.

Similarly, if you earn £60,000 and want to put that amount in your pension scheme in a single year, you'll only get tax relief on £50,000. Any contributions you make over this limit will be subject to Income Tax at the highest rate you pay.

However, 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.

If you are not earning enough to pay Income Tax, you can still get tax relief on pension contributions up to a maximum of £3,600 a year.

The annual allowance is reducing from £50,000 to £40,000 in the tax year 2014-15.

How much can you build up in your pension?

A Lifetime Allowance puts a top limit on the value of pension benefits that you can receive without having to pay a heavy tax charge. The Lifetime Allowance is £1.5 million for the tax year 2013-14. Any amount above this is subject to a charge of 25% if paid as pension or 55% if paid as a lump sum. The Lifetime Allowance is reducing to £1.25 million in the tax year 2014-15.

Workplace pensions, automatic enrolment and tax relief

Since October 2012, a new system is being gradually phased in requiring employers to automatically enrol all eligible workers into a workplace pension. It requires a minimum total contribution, made up of the employer's contribution, the worker's contribution and the tax relief.