



# Pension Tax Relief and You

## Saving for your pension - tax rules

There are rules around how much tax relief you can get on your contributions to a pension scheme. They are a set of rules that apply to everyone, no matter what type of scheme you are in or when you joined the scheme.

There is choice and flexibility in when and how you can save for your pension. You can save more towards your retirement while still gaining the tax advantages. The rules allow you to pay what you want when you want to pay it. This makes it easier for you to plan with confidence for a comfortable retirement.

## Does this mean I can pay more into my pension?

Yes.

Providing your pension scheme agrees, there is no limit on the amount you can put into your pension. But there are limits on the tax relief you can get.

Should you wish, you can save in more than one pension scheme at the same time, for example in both a personal pension and an occupational pension.

## So what are the tax limits?

You can get tax relief on contributions of up to 100% of your UK earnings if you are a UK taxpayer.

If you are a non-taxpayer, every £100 of contributions will receive a contribution of £25 from HMRC up to a combined total of £3600 per tax year. You can contribute more than this, but your fund will not receive any further contributions from HMRC.

Any contributions from your employer will not count against the tax relief you could receive.

There is an annual allowance, set at £245,000 for the year 2009/10. If the increase in the value of your pension rights or your contributions, (plus any contributions from your employer) exceeds the annual allowance, you will be taxed at 40% on the excess.

There is also a lifetime allowance (LTA), which is set at £1.75 million for the year 2009/10. When you take your benefits, if your total pension savings exceed this, you will be taxed on any amount over £1.75 million. This 'Lifetime Allowance charge' is set at 25% if your

additional savings are taken as a pension, and 55% if taken as a lump sum.

So most people can save as much as they can afford without worrying about the limits.

## So how does tax relief work?

For most people, tax relief is given automatically either through their pay packet or by their pension scheme. In which case all you need to do to get tax relief is pay your pension contributions.

This means that for every £100 you want to put into your pension you only need to find £80 out of your income after tax – as the Government contributes the remaining £20.

You pay	Government pays	Your pension contribution is worth
£80	£20	£100

## When can I take my pension?

The Government is changing the rules on the earliest age at which you can take your pension. This is currently 50, although many pension schemes may have a higher limit. By 6 April 2010 every pension scheme must have an age limit of at least 55.

Different rules apply if you retire due to serious ill health or if you already have the right to retire before age 55 at 6 April 2006.

The rules mean that if you want, you may be able to carry on working and take some or all of your pension, which will allow you more flexibility in planning and managing your move to 'full' retirement.

You must start taking your pension by age 75, although there are a number of options on how you can do this.

If you are unsure about any of this, contact your pension scheme for advice.

## Will I be taxed on my pension?

Any pension that you receive is subject to income tax. However most schemes in addition to a pension, offer a tax-free lump sum.

## So what lump sum can I have?

This will depend on the rules of your particular scheme, but the rules mean that all schemes can, if they choose, offer a tax-free lump sum of up to 25% to members when they first take their pension.

## If I only have a small pension fund, what are my options?

If the total value of all your pension savings (in all schemes if you are a member of more than one scheme) is £17,500 or less in 2009/10, and your scheme rules permit, you may be able to take your entire fund as a lump sum. This is known as 'trivial commutation'. 25% of the lump sum will be tax-free and the rest will be taxed as part of your income. Trivial commutation of pensions already in payment is fully taxable as income.

In some circumstances, small pension pots of less than £2000 may be still all taken as a lump sum even though the total value of your pension savings exceeds £17,500.

## Who administers a pension scheme?

The only person who can register a scheme for tax purposes is the Scheme Administrator. The tax rules require that a registered pension scheme must have at least one Scheme Administrator. That is to say a person or persons legally responsible for fulfilling certain functions on behalf of the pension scheme. Often the employer or an individual director will be the Scheme Administrator for their scheme.

Reporting obligations also rest with the Scheme Administrator. The online filing system is Pension Schemes Online through which Scheme Administrators make returns of information and submit reports. It is mandatory for many of the reports and returns to be filed online. Scheme Administrators need to pre-register with our new Pension Schemes Online service to be able to use it.

For more information about the Scheme Administrator role, please see our factsheet on our website at [www.hmrc.gov.uk/pensionschemes/scheme-administrator-facts.pdf](http://www.hmrc.gov.uk/pensionschemes/scheme-administrator-facts.pdf)

For information on using the HMRC Pension Scheme Online service, there is a guide at <http://www.hmrc.gov.uk/pensionschemes/online-user-guide.pdf>

If you don't know who the Scheme Administrator is for your scheme you may wish to check with your pension provider. And if you are the Scheme Administrator, you should make yourself fully aware of your responsibilities. Remember, it is mandatory for Scheme Administrators to file information returns to HMRC online.

### Where can I find out more?

Visit our website at [www.hmrc.gov.uk/pensionschemes](http://www.hmrc.gov.uk/pensionschemes) to get the most up to date information on pensions tax including all the required forms and completion notes.

Look for guidance specifically written for individuals, including explanations of the terms used in this factsheet. This can be found at [www.hmrc.gov.uk/manuals/rpsmanual/index.htm](http://www.hmrc.gov.uk/manuals/rpsmanual/index.htm)

Phone our Helpline on **0845 600 2622** (Monday to Friday 09.00 to 17.00)