

How much can I pay into my pension?

A pension is a tax-efficient, long-term savings plan. You can benefit from tax relief on the contributions you pay in and your pension pot has the potential to grow with minimal tax.

Currently, you can save up to £40,000 every year into your pension, but there are limits to the level of tax relief you can receive. Tax relief will only be given on 100% of your earnings or £40,000, whichever is the lower. This will differ if the reduced Money Purchase Allowance applies, or if your salary exceeds £240,000 (explained below).

We can help you achieve a tax-efficient financial plan by providing advice that's based on a thorough understanding of your personal circumstances and goals. Please get in touch to find out more.



What if your “adjusted income” is over £240,000?

Broadly speaking, adjusted income is your total taxable income (including salary, dividends, rental income and savings interest) plus the value of any employer pension contributions. If this is over £240,000 your annual allowance could be lower than £40,000. Here's why:

For every £2 of adjusted income over £240,000, your annual allowance falls by £1. If your adjusted income is £312,000 or more, your annual allowance is fixed at £4,000.



What if you want to contribute over £40,000 this tax year?

Some higher earners can contribute up to £160,000 by ‘carrying forward’ unused annual allowance from the previous three years.



What if you're a member of a defined benefit (final salary) pension scheme?

The benefits you are building up each year are assigned a monetary value.

This value counts towards the annual allowance and could therefore restrict what you can contribute to another pension. You need to contact your pension administrator and ask for this value.



What if you've already accessed your pension?

Since 6 April 2015, if you have accessed a pension, or had flexible drawdown before, a reduced money purchase annual allowance may apply. This is £4,000 for the 2020/2021 tax year. You cannot use Pension Carry Forward option to contribute more than the money purchase annual allowance.



The actual amount you can pay into your pension each tax year for tax relief purposes is the greater of:

- A gross contribution of £3,600, or
- 100% of your earnings. This is capped at £40,000 which, subject to certain conditions, is the annual allowance for most people.

This information is based on our current understanding of the rules for the 2020/2021 tax year.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

The value of investments and any income from them can go down as well as up and you may not get back the original amount invested.