Modelling UK Pensions Tax Relief

This note, and the accompanying Excel spreadsheet, models the tax relief and national insurance relief given on all UK pension contributions from employers and employees, dissecting the data across income bands and contribution sizes.

Sources are HMRC data for total tax relief currently given, HMRC data for the number of people in each income band, and L&G modelling of the spread of pension contribution sizes.

Four scenarios are examined :

> A : Pensions tax relief as it happened in 2008/9
>
> B : What would happen if full unconstrained tax relief was continued after the introduction of the new 50% tax band for high income individuals
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> C : A model of tax relief using the Budget proposals to taper tax relief away above incomes of £150,000 reducing to 20% at £180,000
>
> D : An alternative proposal that would continue to give full marginal rate tax relief up to contributions of £50,000 but no tax relief at all beyond that.

The key results are :

	Cost of tax relief	High earners share of tax relief	Combined cost of tax and NI relief
2008/9 as it happened	£24.4bn	25%	£33bn
50% tax rate and full relief maintained	£26.0bn	29%	£34.6bn
Budget proposals to taper relief to 20% at £180,000	£20.7bn	11%	£28.7bn
Alternative proposal – full tax relief maintained on contributions up to £50,000	£20.8bn	14%	£28.3bn

The results suggest that by introducing a £50,000 annual allowance for tax relievable contributions, HM Treasury could achieve the twin policy aims of reducing expenditure on tax relief and curbing the excessive share enjoyed by high earners whilst retaining the simplicity of full marginal rate tax relief on pension contributions

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