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Pensions and tax

The tax breaks are the reason pensions beat almost every other way to save for retirement — and the tax charges are where unprepared plans leak money. Both directions deserve your attention.

On the way in: relief at your highest rate

Personal contributions receive tax relief at your marginal rate: £100 in a pension costs a basic-rate taxpayer £80, a higher-rate taxpayer effectively £60, an additional-rate taxpayer £55. Salary-sacrifice arrangements can save National Insurance on top. The standard annual allowance is £60,000 (tapered for very high earners), and unused allowance can often be carried forward from the previous three tax years.

While invested: largely tax-free

Inside the pension wrapper, investments grow free of UK income tax and capital gains tax — one reason long holding periods inside a pension are so powerful.

On the way out: timing is everything

Beyond the 25% tax-free element, withdrawals are taxed as income. Two people with identical pots can pay very different total tax purely through sequencing — which accounts they draw first, how much per year, and how withdrawals interact with the State Pension, which already uses nearly all of the frozen £12,570 personal allowance.

The April 2027 change everyone with a pension should know about

From 6 April 2027, unused pension funds and death benefits are due to be brought into the inheritance tax estate. For years, leaving the pension untouched was a standard IHT strategy; for many families that logic now reverses, and the right order of spending assets — pension first or pension last — needs rethinking. This single change is prompting more plan reviews than anything else in recent memory.

Watch out for…

- Higher-rate taxpayers forgetting to claim their extra relief — it is not always automatic.
- The tapered annual allowance and the MPAA quietly capping what you can contribute.
- Frozen tax thresholds dragging more retirement income into 40% tax each year.
- Treating the pre-2027 IHT logic ("spend everything else first, leave the pension") as if it still holds.

How taking advice might help

Pension tax rules change often, and the April 2027 IHT shift is the biggest reversal of common practice in years — what used to be smart planning now works against many families. Reviewing the order in which you would spend assets, and updating who is nominated to receive what, is worth doing this year rather than next.

For anyone with more than one meaningful pot, or with an estate that might attract IHT, a piece of tax-planning work — either as guidance modelling or through full regulated advice — often saves substantial money over a retirement.

Questions worth asking yourself

- Are you claiming every pound of tax relief you are entitled to on contributions?
- Have you mapped which accounts you would draw from first in retirement — and why that order?
- Does the April 2027 inheritance tax change affect what you were planning to leave, and to whom?

• Could contributing more now, while reliefs last, materially change your position?

Want to talk it through?

Send your question via pensionhelper.com — you'll get a straight answer within 24 working hours. Free to ask. Fixed-fee guidance from £99 when it's worth doing the numbers properly. A regulated adviser introduction when it's genuinely warranted.