ACUMEN FINANCIAL

KEY GUIDE

Pension tax planning for high earners

Introduction

MITIGATING A HIGH TAX BILL

With continuing intense pressure on government finances, the November 2025 Budget confirmed that the overall tax burden in the UK is on course for the highest overall tax burden in modern peacetime history, with higher earners continuing to shoulder most of the burden. Higher and additional rate taxpayers currently pay over two thirds of all income tax. Figures published by the government in June 2026 showed that the tax gap estimate i.e. the difference between what tax is expected to be paid and actually paid was 6.4% for the 2024/25 tax year, up from 6.0% in 2024/25. In order to close the tax gap, in the November 2025 Budget the government announced changes to raise about £26 billion a year in additional tax revenue by the end of the forecast period (2029/30). This will be achieved mainly via extending tax threshold freezes, and higher taxes on investment, savings, and property income.

Around one in five income tax payers is currently taxed at the higher or additional rate, up from one in seven in 2020/21, and the proportion will continue to increase because of frozen tax allowances and bands until 5 April 2031. The threshold for paying additional rate tax reduced from tax year 2023/24 from £150,000 to £125,140, while income between £100,000 and £125,140 is effectively taxed at 60% (67.5% in Scotland) because of the tapered reduction to the personal allowance.

Please note that all examples included in this guide are fictitious.

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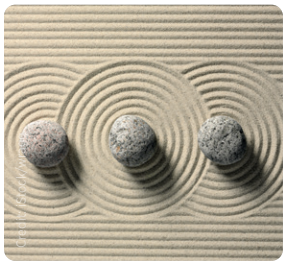

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The rising tax burden on income

Credit: iStock/filmfoto

Except in Scotland, the point at which you start to pay 40% income tax is £50,271 for 2026/27, having increased at less than two-thirds of the rate of inflation over the past ten years. The rate increases to 45% on income over £125,140. Over three million more people pay higher- or additional-rate tax in tax year 2026/27 than in 2020/21. You may also be feeling the impact of the tax on child benefit, which applies to those with income over £60,000, or you may be subject to tax on dividends which has increased by an additional 2% from April 2026. In Scotland, more tax is paid by high earners, up to a maximum rate of 48% in 2026/27.

The message is clear: if you want to reduce the amount of tax that you pay the solution is in your own hands. Planning could help you to lessen the rising tax burden – and we're here to help.

This guide explores a key tax planning opportunity: making pension contributions. Pension contributions qualify for tax relief based on your highest rate, which means the rate of relief can currently be 20%, 40% or 45% (with a wider range of rates in Scotland). The effective rate of relief can be much higher, if your pension contributions help you to avoid the withdrawal of child benefit or your personal allowance.

The guide also explains how a self-invested personal pension (SIPP) could help you to take control of your pension, and even to develop your business.

Planning point

Income tax thresholds have not kept pace with inflation and are now frozen, which means high earners should be aware of the tax-planning opportunities open to them.

PENSIONS – LESS TAX NOW, MORE INCOME LATER

The generous tax reliefs successive governments have given to pension arrangements mean that they have long played an important role in tax planning for high earners. This was limited from April 2011 by increasingly tight restrictions on these reliefs, but from tax year 2023/24 the maximum you can pay into a pension each year increased and the heavy tax charges on contributions exceeding a lifetime allowance were scrapped. This greatly enhanced the potential tax benefits from pensions, but the maximum available tax-free lump sum at retirement did not change.

The use of pensions in income tax planning is often divided into two areas: pre-retirement and at-retirement, but there is no direct link between physical retirement – stopping work – and drawing on a pension arrangement. You may draw benefits before retirement and make pension contributions after your working life has ended. In practice, it is possible to consider three phases:

- **Before age 55 (which increases to 57 from April 2028)** you can pay into a pension but cannot take anything out unless you are in serious ill health.
- **Between age 55 (which increases to 57 from April 2028) and 74** you can pay in or draw out (or do both at once), which gives you real flexibility to manage your income as you move into retirement.

- **From age 75** you can no longer receive tax relief on pension contributions, but you have a free choice of how much or how little you draw out each year.

Currently, pensions can also play an important role in combatting another tax that may concern you and your family: inheritance tax (IHT). Changes to the relationship between pensions and IHT are expected from 6 April 2027, but the table below summarises the current key tax benefits.

When contributions are made	Within the annual allowance, individual contributions up to the level of your earnings qualify for income tax relief, and employer contributions normally reduce taxable profits.
When the pension fund is invested	The scheme pays no UK tax on investment income or capital gains, although dividend income may have effectively been subject to corporation tax for the company paying it and this cannot be reclaimed.
When you take your pension benefits	A quarter of the value is normally available as a tax-free lump sum, up to a lifetime maximum of £268,275 (a limit known as the lump sum allowance (LSA)) unless you qualify for special protections. Income is taxable, but possibly at a lower rate than when you were working.
When you die	Currently if you die before age 75, payments made from your pension fund (as lump sums or income) are normally IHT and income tax free. However, where lump sums exceed £1,073,100 in total (a limit known as the lump sum and death benefit allowance (LSDBA)) the excess may be taxed as income on the recipient. This tax does not apply where a vehicle intended for providing income is set up, even if it is then cashed in immediately. On death at or after age 75, income tax will apply to all benefits. The government has announced that from April 2027 unspent pension pots will be assessable for IHT in almost all circumstances. We can provide further information on the current situation and implications of the proposed change.

Planning point

Pension contributions can offer a particularly effective way to reduce your tax bill whilst also helping you to prepare for retirement so you should make sure you are aware of all the options.

CONTRIBUTION PLANNING

Your personal contributions to a pension normally qualify for income tax relief at your marginal rate(s). Most commonly, individuals pay 80% of their contribution and the pension scheme claims the remaining 20% from the government. Therefore 20% tax relief is available to non-taxpayers and to those Scottish taxpayers whose highest tax rate is 19%. If your highest rate of tax is over 20%, is therefore available to non-taxpayers and to Scottish taxpayers whose highest tax rate is 19%. If your highest rate of tax is over 20%, you can claim the balance under income tax self-assessment.

Credit: iStock/katerinasergeevna

Pension contributions reduce the income that is taken into account in the phasing out of the personal allowance where income exceeds £100,000, so they can potentially help you avoid an effective tax rate of up to 60% (67.5% in Scotland) on part of your income. Contributions can also help you to sidestep the additional rate tax band, which starts at £125,140 of taxable income, or the high-income child benefit tax charge, which affects those with income over £60,000.

EXAMPLE
Pensions tax relief

Esther, who lives in England, has total income of £112,000 for the tax year 2026/27. Her personal allowance is reduced by £1 for every £2 of income over £100,000, meaning she loses £6,000 from her personal allowance. As a higher rate (40%) taxpayer, she pays £2,400 on this extra taxable income. If she makes a pension contribution of £12,000 including the tax relief, this reduces her relevant income and she recovers her full annual allowance. In addition, she gets the full 40% tax relief on the contribution, amounting to £4,800. This means that the £12,000 contribution only costs her £4,800 (£12,000 – £2,400 – £4,800). This is equivalent to tax relief of 60%.

The rules on limits for tax relief are complicated. Total contributions, including deemed contributions to an employer's defined benefit scheme (e.g. a scheme that provides a pension based on your final salary or career average earnings depending on the scheme) must be kept within an annual allowance to avoid tax charges. This annual allowance is currently £60,000, but it reduces for those with 'adjusted income' over £260,000 and it is just £10,000 for adjusted incomes of £360,000 and over. 'Adjusted income' includes pension contributions paid by an employer or deducted from your pre-tax pay in addition to normal taxable income.

The annual allowance rules mean that for some people, for example consultants and other high-earning NHS staff, working extra hours can lead to high tax bills because of additional pension accrual in a defined benefits scheme. Professional advice is essential in these circumstances.

Regardless of your earnings, the maximum contribution to your pensions (excluding any defined benefit schemes) without tax charges falls to just £10,000 once you have started to receive payments from your pensions flexibly. Some exceptions to this rule apply, for instance if you only take a tax-free lump sum or if you buy certain types of lifetime annuity.

Carry forward

There are some special rules that may allow you to catch up on the pension contributions you could have made in the previous three tax years. In 2026/27, you can exploit your unused annual allowance dating back to 2023/24. This is known as 'carry forward'. The rules are relatively complicated, but, in theory at least, if your earnings are high enough in the current tax year and you have not paid into a pension in recent years, it would be possible to make up to £240,000 of pension contributions in 2026/27. This facility may be particularly helpful for those who had to reduce pension contributions because income was squeezed by high inflation.

If this type of planning could be relevant to you, then please seek our professional advice. Both the calculation of unused relief and the identification of contributions to tax years are often not straightforward.

Tax treatment varies according to individual circumstances and is subject to change.

EXAMPLE
Carry forward

Elaine has paid £20,000 into her pension in the 'input periods' for each of the three tax years 2020/21, 2021/22 and 2022/23, when the annual allowance was £40,000. She can carry forward £20,000 (£40,000 – £20,000) from each of these years – a total of £60,000. She can add in £60,000 for the tax year 2023/24 and contribute up to £120,000 in that year, assuming she has sufficient earnings to qualify for tax relief on the whole amount and that her adjusted income is not over £260,000.

Planning point

If you have not used all of your annual allowance in the last three tax years, the carry forward rules let you bring the unused amounts into the current tax year.

Salary sacrifice

Whether or not you wish to maximise your pension contributions, it is well worth spending some time on the payment arrangements. If you are an employee, then you (and your employer) can save national insurance contributions (NICs). The secret is for you to reduce your salary or your bonus and ask your employer to use the money, including the NIC saving, to make the pension contributions for you. The technical name for this is salary or bonus sacrifice and it is perfectly legal if you do it correctly. If you pay higher or additional rate income tax, the result could be an increase of around 19% in the amount being paid into your pension if your employer contributes their NIC saving.

Importantly, your cash salary will be reduced and replaced with the pension benefit. Before adopting this pension contribution route, you should consider the effect this may have on:

- your ability to borrow money, e.g. for a mortgage;
- your entitlement to redundancy payments or other benefits, such as statutory maternity pay, working tax credit or child tax credit;
- any life insurance or income protection where the amount paid is linked to your salary.

It is worth noting that following an announcement in the November 2025 Budget, from April 2029 pension contributions made via salary sacrifice will be limited to £2,000 per person per tax year.

TAKING CONTROL OF YOUR PENSION PLAN – SIPPS

Pension schemes and providers generally offer a wide range of investment funds, which meet the needs of most people. However, if you have already saved a substantial amount, a self-invested personal pension (SIPP) offers you the opportunity to take control of your pension investments.

A SIPP gives you a much wider choice of investments to suit your priorities and preferences, and if you have your own business you may be able to use your pension to help develop it tax-efficiently. For example, you can hold commercial property and company shares in a SIPP, or you can build up a portfolio of investments. A SIPP also offers a flexible and tax-efficient way to turn the pension fund you have accumulated into an income for your retirement. There are, however, downsides to SIPPs which will be touched upon later.

Planning point

If you want more control over how your pension funds are invested, you may want to consider a SIPP, which allows you to choose how your savings are used.

What is a SIPP?

A SIPP is a form of personal pension that allows you, as the pension scheme member, to choose and control the investments within your pension plan. SIPPs are offered by most of the major providers, including investment platforms, insurance companies and specialist pension firms.

The benefits that you can draw from a SIPP and the contributions that can be made are subject to the same rules as any personal pension. The key differentiator is the range of investments available. These vary among providers, with insurance companies typically offering a more limited range that will suit most investors, while specialist providers may offer the full range. Typically, investment options include:

- a very wide range of investment funds;
- direct investment in stocks and shares;
- cash deposits;
- commercial property.

Whilst SIPPs allow a large range of investments, some options may not be appropriate for you such as direct investment in overseas property or derivatives.

A SIPP as part of your investment portfolio
Most SIPPs include funds and quoted investments, which you may hold alongside your other assets. It is important that your investments are integrated as far as possible and considered together in your financial planning.

A key consideration is ensuring that your investment portfolio balances risk and reward in a way you are comfortable with. This will take account of the time horizon of your investments as well as your personal attitude. This will largely be reflected in asset allocation, which is simply the balance between secure but low-growth investments, such as cash deposits, and more risky but higher-potential investments, such as company shares. You will also need to consider the selection of investment funds/index trackers, which are likely to make up a large part of your portfolio, and ensure they are suitably diversified and reviewed regularly.

The taxation of investments can also help determine whether they are held inside your SIPP or elsewhere in your investment portfolio, with dividends over the allowance of £500 a year in tax year 2026/27 subject to tax.

Consolidating your pensions in a SIPP
Many of us build up several different pensions over the years. Some pension funds may still be with former employers, while others are those we have saved ourselves. Some may have high charges and under-performing investments. Consolidating old pensions into a SIPP can reduce charges and allow investments to be made that meet your needs better.

This must be done with caution. Some employer schemes have very low charges, so you could pay more after switching to a SIPP and you will need to be confident this is justified by the additional investment flexibility. Even more importantly, you must be careful about giving up guarantees in your old pension arrangements. Some older arrangements, which are usually on a 'with profits' basis, guarantee the terms on which you can convert your pension fund into an income through an annuity. Guaranteed annuity rates can give you a pension that could be twice as high as buying the best annuity available on standard rates today, but this may be subject to restrictive terms. Some older arrangements may offer the ability to take a tax-free lump sum over and above the normal maximum amount of 25% of the fund value, a feature which would be lost in the event of switching pension provider except in very limited circumstances.

Commercial property investment
A major attraction of SIPPs is that certain types can invest in commercial property.

Commercial property can be let to the pension scheme member's company or partnership. You can even sell a property that you or your business owns to the pension scheme (although this might result in a tax charge on any capital gains). Any sale transaction must use an arm's length valuation, because there are tax penalties for 'value shifting', for example undervalued sales to your pension scheme. Similarly, the business must always pay a full commercial rent, which the SIPP will receive tax free.

A SIPP can borrow up to 50% of its net assets for property investment (or any other purpose). Often SIPP property purchase is financed by a combination of transfers from previous pension arrangements, new contributions and borrowing.

EXAMPLE
SIPP borrowing

Andrew has a SIPP with total assets of £300,000 and a personal pension valued at £100,000. He decides to transfer the personal pension into the SIPP, and can then borrow £200,000 (50% of £400,000) and spend up to £600,000 on a commercial property.

SIPPs that hold commercial property as an investment normally have higher annual charges than simpler pension arrangements with investments in listed securities, collective funds and cash.

Specialised investments and taxable investments
In theory, almost any investment can be held in a SIPP, but those that are not approved by HMRC are subject to heavy tax charges that make them unattractive. They are known as 'taxable property' and include, for example, residential property, works of art, antiques, fine wine and other collectibles. The maximum tax charge on taxable property is 104% of the investment's value, most of which falls on the member. Some indirect investment in property and chattels is exempt from the tax penalty, but the definitions are strictly drawn.

Unfortunately, the way in which the legislation operates will potentially catch a controlling director's pension scheme investing in the shares of their own unlisted company. While there is a limited exemption for indirect investment in chattels with a market value of no more than £6,000, many providers ban investment in chattels and member-related unlisted securities. However, some SIPPs do permit investment in suitably structured residential property funds.

The Alternative Investment Market (AIM) invests in assets that are high risk and can be difficult to sell such as shares in unlisted companies. The value of the investment and the income from it can fall as well as rise and investors may not get back what they originally invested, even taking into account the tax benefits.

WITHDRAWING MONEY FROM YOUR PENSION

Pension rules accommodate a number of different options once you reach the minimum pension age of 55 (which increases to 57 in 2028). There are no restrictions on how much income you can take each year from drawdown, (unless you are still in capped drawdown from pre-6 April 2015), and you can normally take 25% of your pension funds as a tax-free lump sum at the start, with subsequent withdrawals taxed as income. There are also no restrictions on withdrawals from a pension, but the first 25% you take is normally tax free and the remainder is taxed as income. The best way to structure withdrawals from your pension will depend on your personal circumstances.

With many people currently under financial strain, it might be tempting to start or increase pension withdrawals. However, withdrawals made now could significantly reduce income available in the future. Careful consideration is needed of what level of withdrawal may be appropriate, and what investments should be encashed to provide it. It may be a good time to review your pension investments to ensure they are appropriately diversified. You also need to be aware that starting to withdraw income flexibly restricts future pension contributions to a maximum of £10,000 a year before suffering tax charges. Professional advice is essential to avoid potential pitfalls.

EXAMPLE
Drawing from pension

Samira has a SIPP with a value of £600,000. After taking financial advice, she decides to 'crystallise' £400,000 by moving £300,000 to drawdown and taking £100,000 as a lump sum. The £100,000 is tax free as it is a quarter of the £400,000 total withdrawal. She decides to keep the remaining £200,000 'uncrystallised' until she needs it, when she can take 25% of it tax free.

We can give guidance on how you might take lump sums and income from your pension, including ways to combine them with other income sources, how to structure your investments, what happens if you die and when it may be beneficial to buy guaranteed income through an annuity. We can also help you understand how you can take advantage of the flexibility available.

The value of pensions and investments and the income from them can fall as well as rise and investors may not get back what they originally invested, even taking into account the tax benefits.

Tax treatment varies according to individual circumstances and is subject to change.

Tax planning including inheritance tax planning is not regulated by the Financial Conduct Authority.

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HOW WE CAN HELP

Retirement planning is complex, and has been made even more so by constant changes to the rules. We make it our business to stay up-to-date with the latest developments, and to help clients take full advantage of the available tax breaks. In particular, we can give guidance on:

- Assessing your financial priorities and recommending a tailored retirement planning strategy.
- Maximising pension contributions, using carry forward where appropriate.
- Advising whether salary sacrifice could increase the amount invested in your pension at no extra cost to you or your employer.
- The appropriateness of a SIPP, and the right investment strategy.
- Transferring existing pension arrangements into your new pension arrangement.
- Managing the move from saving to withdrawing from your pension.
- Minimising IHT liabilities after your death.

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