

# PEN 6 Cost of Registered Pension Scheme Tax Relief

Occupational schemes in the public and private sectors and individuals' personal pensions



£ million

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 <sup>1</sup>	2013-14 <sup>1</sup>	2014-15 <sup>1</sup>	2015-16 <sup>p</sup>
<b>Income tax relief on:-</b>															
Occupational Scheme Contributions															
By Employees	3,100	3,200	3,400	3,800	4,200	4,400	4,400	4,200	3,800	4,000	3,700	4,200	4,400	4,500	4,500
By Employers	7,900	8,900	10,400	12,300	14,400	15,500	15,100	14,100	15,700	19,000	18,700	18,400	17,000	16,600	18,500
Personal Pension Scheme Contributions															
By Employees	1,090	1,300	1,300	1,300	1,500	1,800	2,100	2,000	1,900	2,000	1,900	1,700	1,800	2,200	2,400
By Employers	700	800	800	1,000	1,200	1,900	2,300	2,400	2,400	3,000	2,700	3,000	3,100	3,300	4,300
Contribution to PPs and RACs by self employed	1,000	900	800	800	1,000	1,200	1,300	1,000	700	800	900	700	600	600	700
Investment income of pension funds <sup>1</sup>	3,700	3,500	3,800	4,200	4,500	5,100	5,600	5,700	6,300	6,600	6,800	7,100	7,300	7,700	7,900
<b>Total reliefs</b>	<b>17,600</b>	<b>18,600</b>	<b>20,400</b>	<b>23,400</b>	<b>26,900</b>	<b>30,000</b>	<b>30,800</b>	<b>29,400</b>	<b>30,800</b>	<b>35,300</b>	<b>34,800</b>	<b>35,100</b>	<b>34,200</b>	<b>34,900</b>	<b>38,200</b>
<b>Less tax liable on</b>															
Pension payments <sup>2</sup>															
	7,500	8,100	8,200	8,100	9,200	10,500	9,300	10,800	10,700	11,300	12,000	12,800	13,100	13,000	13,400
Refunds by funds to employers															
in connection with pension fund surpluses	110	60	40	20	10	-	-	-	-	-	-	-	-	-	-
<b>Total deductions</b>	<b>7,600</b>	<b>8,200</b>	<b>8,200</b>	<b>8,200</b>	<b>9,200</b>	<b>10,500</b>	<b>9,300</b>	<b>10,800</b>	<b>10,700</b>	<b>11,300</b>	<b>12,000</b>	<b>12,800</b>	<b>13,100</b>	<b>13,000</b>	<b>13,400</b>
<b>Total</b>	<b>10,000</b>	<b>10,500</b>	<b>12,200</b>	<b>15,300</b>	<b>17,600</b>	<b>19,500</b>	<b>21,500</b>	<b>18,600</b>	<b>20,100</b>	<b>24,000</b>	<b>22,800</b>	<b>22,300</b>	<b>21,100</b>	<b>21,800</b>	<b>24,800</b>
<b>Memorandum item</b>															
National Insurance relief on employer contributions <sup>3</sup>	5,400	6,200	7,300	8,400	9,800	10,400	11,700	11,500	12,900	14,500	14,800	14,700	13,800	13,700	15,700

PP = Personal Pension.

RAC = Retirement Annuity Contract.

p = mixture of provisional outturns and projections; r = revised

Updated February 2017

## Footnotes

1. The cost is in respect of the investment income of both occupational and personal pensions schemes assuming relief at the basic rate of tax. Estimates of relief for capital gains realised by pension funds are not included because of estimation difficulties.
2. Based on the effective rate of tax applying to personal (non-state) pension income as derived from the HMRC Personal Taxes Model, with different rates of tax applying to different slices of pension income, or possibly not subject to tax at all.
3. This is a combination of National Insurance relief for employers on the pension contributions they make as well as the saving for individuals from the employers contributions not being treated as part of their gross income and subject to employee National Insurance contributions (in accordance with how individuals' own pension contributions are treated).

## Notes on the Table

- i. The figures are based on HMRC administrative data and information compiled from a variety of sources by the Office for National Statistics (ONS). Costs are subject to large revisions and have a particularly wide margin of error.
- ii. The cost of the tax relief is calculated as the tax that would be paid on contributions to registered pension schemes presuming they were not registered and the payments were subject to the normal tax rules applying to individuals' remuneration. The estimates do not represent the yield from withdrawing tax relief as there would be significant changes in taxpayers' behaviour.
- iii. The figures in the table for tax liabilities on pensions in payment are the tax on pensions paid in the year, not the tax that might eventually be received on pension paid as a result of contributions made in the year. Future tax receipts on pensions paid to individuals currently making contributions to funds may be higher than those currently receiving pensions because of earnings growth and an increase in the average number of working years of membership in pension schemes. Also the ratio of pensioners to contributors may be expected to increase significantly which would tend to reduce the cost in net present value terms.
- iv. Many pension funds currently have more money coming in from contributions and investment income than they are paying out in pensions. In addition, the average tax rate relieved on contributions and on investment income is higher than on pensions in payment. The relief on the first two thus substantially exceeds tax receipts on pensions.
- v. Personal Pensions include Group Personal Pensions (arranged through an employer) and Stakeholder pensions; and Free Standing Additional Voluntary Contributions up to and including 2006-07. A small number of non-working individuals (e.g. children) make contributions to personal pensions and the value of these contributions are included within in the employee contribution category.
- vi. The column totals may not equal the calculation from the individual components due to rounding.
- vii. Some of the series in this table have seen revisions since publication last year. This is a combination of revisions to the base data provided by ONS and changes to estimates derived from the HMRC Personal Taxes Model.