

Pension Contributions Tax Relief Guide

Within Dynamic Planner cash flow you have the ability to add pension contributions into your pension arrangements.

This guide is intended to help you enter your contributions in the most appropriate way, and contains a full worked example to help highlight the different methods.

The “Net Pay” and “Salary sacrifice” methods of paying pension contributions are supported directly.

Net Pay Method

- In a ‘net pay’ scheme, 100 per cent of the employee contributions are deducted from the employee’s gross salary before any taxes have been paid.
- Income tax is calculated on the gross salary less 100% pension contribution
- So, the employee pays income tax on a salary which is ‘net’ of their pension contribution, meaning that they automatically receive tax relief at their highest rate of income tax.

Is this method supported?	Yes
How can I use this method?	Enter the client’s gross income as “ Salary or wages (gross) ”. Enter the client’s gross employee contribution . Enter the client’s employer contribution .

Salary sacrifice

- In a ‘salary sacrifice’ scheme, the employee has their gross salary reduced by the amount of the pension contribution. This is then added to the employer contribution and passed to the pension as an employer contribution.
- This saves the employee both the Income Tax and National Insurance that would have been paid had it not gone into a pension.

Is this method supported?	Yes
How can I use this method?	Reduce the client’s gross income by their pension contribution (which should be shown on payslips). This reduced income should still be entered as “ Salary or wages (gross) ”. No employee contribution should be entered, as this is no longer made by the employee. The employee and employer contribution should be added together and added as an employer contribution .

Relief at source

- Where 'relief at source' applies, employee contributions are deducted from the employee's net salary (ie after tax has been deducted under PAYE).
- The employer deducts only 80 per cent of the total employee contribution from the employee's net salary, as basic rate tax relief is then added to the fund by the pension scheme, which the scheme reclaims from HMRC.
- If the employee is a higher rate taxpayer, they can also separately claim higher rate tax relief personally, either through their tax return or by making a claim to HMRC.

Is this method supported?	<p>Yes for basic rate tax payers</p> <p>For higher rate tax payers it is assumed that any tax to be reclaimed from HMRC is received immediately.</p>
How can I use this method?	<p><u>Basic Rate Tax Payers</u></p> <p>Enter the client's gross income as "Salary or wages (gross)".</p> <p>Enter the client's gross employee contribution.</p> <p>You may only know the net amount. You can multiply the net amount by 1.25 to obtain the gross value.</p> <p>Enter the client's employer contribution.</p> <p><u>Higher Rate Tax Payers</u></p> <p>Enter the client's gross income as "Salary or wages (gross)".</p> <p>Enter the client's gross employee contribution</p> <p>You may only know the net amount. You can multiply the net amount by 1.25 to obtain the gross value.</p> <p>Enter the client's employer contribution</p>

Please note these calculations assume a basic tax rate of 20% and a higher rate of 40%.

Full Worked Examples

These worked examples are based on the 2024/2025 income tax and national insurance bands. The highlighted numbers show which figures should be entered in Dynamic Planner.

Basic Rate Tax Payer

- Gross income: £30,000
- Gross employee contribution: £5,000
- Employer contribution: £2,000

	Net Pay	Salary Sacrifice	Relief at source	Relief at source proxy
Gross Income	30,000.00	25,000.00	30,000.00	30,000.00
Pension deductions from gross	5,000.00	0.00	0.00	5,000.00
Taxable Income	25,000.00	25,000.00	30,000.00	25,000.00
Income tax calculation				
<i>Tax @ 20%</i>	2,486.00	2,486.00	3,486.00	2,486.00
<i>Tax @ 40%</i>	0.00	0.00	0.00	0.00
National Insurance calculation				
<i>NI @ 12%</i>	3,600.00	3,000.00	3,600.00	3,600.00
<i>NI @ 2%</i>	0.00	0.00	0.00	0.00
Pension deductions from net	0.00	0.00	4,000.00	0.00
Take Home Pay	18,914.00	19,514.00	18,914.00	18,914.00
Employee Contribution Received	5,000.00	0.00	5,000.00	5,000.00
Employer Contribution Received	2,000.00	7,000.00	2,000.00	2,000.00

Higher Rate Tax Payer

- Gross income: £80,000
- Contributions as above

	Net Pay	Salary Sacrifice	Relief at source	Relief at source proxy
Gross Income	80,000.00	75,000.00	80,000.00	80,000.00
Pension deductions from gross	5,000.00	0.00	0.00	5,000.00
Taxable Income	75,000.00	75,000.00	80,000.00	75,000.00
Income tax calculation				
<i>Tax @ 20% between £12,570 and £50,270</i>	7,540.00	7,540.00	7,540.00	7,540.00
<i>Tax @ 40% over £50,270</i>	9,892.00	9,892.00	11,892.00	9,892.00
National Insurance calculation				
<i>NI @ 12% between £12,570 and £50,270</i>	4,524.00	4,524.00	4,524.00	4,524.00
<i>NI @ 2% over £50,270</i>	594.60	494.60	594.60	594.60
Pension deductions from net	0.00	0.00	4,000.00	0.00
Take Home Pay	52,449.40	52,549.40	51,449.40	52,449.40
Additional refund from HMRC			1,000.00	
Total net income received	52,449.40	52,549.40	52,449.40	52,449.40
Employee Contribution Received	5,000.00	0.00	5,000.00	5,000.00
Employer Contribution Received	2,000.00	7,000.00	2,000.00	2,000.00