

## Tax reform of the day: cap pension tax relief contribut...

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To continue my [series on tax reforms](#), which could go on for a very long time (and I am open to suggestions as to desired reforms), this time the issue is an obvious one if the problem of growing, and tax subsidised, inequality in the UK is to be tackled.

### **Cap pension tax relief contributions at 20%**

Tax reliefs for pensions cost in excess of **£50 billion** a year. **It is unlikely that almost any new investment in UK business or other economic activity arises as a result. This cost is, then, simply a subsidy to saving, most of which is given to those who are already wealthy or high earners. Pension tax reliefs also create a perverse distortion. Since they are usually provided at a taxpayer's highest marginal income tax rate many higher rate taxpayers get twice as much tax relief for each pound that they pay into their pension as does a basic rate taxpayer. This double rate of subsidy serves to increase income and wealth inequality in the UK. The problem can very easily be solved: tax relief on pension contributions should only be available at the basic income tax rate in future.**