



# Clergy AVC tax-free cash limits

April 2024

**Keep boosting your retirement savings in a tax efficient way with Additional Voluntary Contributions (AVCs).**

**When you come to retire, we might be able to pay all or most of your AVCs back to you tax-free.**

Saving extra with AVCs is one of the most tax efficient ways of boosting your income for retirement. This could help with moving costs, or you can put it towards the retirement you are planning for.

Best of all, you can get tax relief on what you pay in now, and we might be able to pay all, or most of your AVCS back to you tax-free when you retire.

**Make the most of your tax-free savings**  
If you earn above the tax threshold, you get tax relief on your AVCs, up to a limit.

Currently you can save up to 100% of your taxable earnings (or £60,000 if you earn more than this), less any Heating Lighting or Cleaning allowances into a pension and get tax relief. This is your Annual Allowance.

**Contact us**



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This cap includes how much your Clergy pension grows each year, plus any other pensions you have. Find out more in our Annual Allowance leaflet at [www.churchofengland.org/pensions-technical](http://www.churchofengland.org/pensions-technical)

### How much might I get back tax-free when I retire?

When you retire, we might be able to pay all, or most of your AVCs back to you tax-free. But there is a limit. To work out how much we can pay you tax-free, we use this formula.

**We multiply your annual Clergy pension by 20. Then, we add your tax-free lump sum and the value of your AVCs. We divide the whole amount by 4 to get 25%, then we take bac off your Clergy tax-free lump sum. What's left if how much you can take from your AVCs tax-free.**

If your AVCs are less than the amount that is left, we can pay all your AVCs back to you tax-free. If it is more, we can still pay the tax-free amount to you and you can decide how you would like to take the excess.

To save you working this out yourself, there are step you can follow to get a ballpark idea.

#### Step 1

First, find your latest annual statement and check how much your pension and lump sum **might be** when you retire and compare this to the table on the next page.

## Key takeaways

Here are the key points to remember:

- **AVCs are a great way to boost your retirement savings in a tax-efficient way.**
- **You can save monthly through your stipend or pay, or save one off amounts.**
- **You get tax-relief on the amount you save, and if you keep within certain limits, you can get it all, or most of it back tax-free when you retire.**
- **There are a range of different ways you can take your AVCs when you retire.**
- **You can stop, start, increase or decrease whenever you want.**
- **You can leave the investments to us and use our default investment option.**
- **There are ethical investment options, and a range of pick your own options available.**



## Step 2

Then, find your latest AVC statement and compare the value of your AVC pot to the maximum we can pay you tax-free. This is the column highlighted in purple.

For example, if your last annual statement shows a projected pension of £6,000 each year, and a tax-free lump sum of £18,000, your tax-free AVC limit will be between the middle two examples on page .

### Examples of how much can I take tax-free when I retire?

Pension (p.a.)	Tax-free lump sum	Maximum tax-free AVCs
£2,000	£6,000	£7,250
£5,000	£15,000	£18,000
£7,000	£21,000	£25,500
£10,000	£30,000	£36,500

If you can't find your last statements or you would like us to work out how much you are likely to be able to get back tax-free, just get in touch and we can let you know.

### What if my AVCs are under the tax-free limit?

Great news, we can pay all your AVCs to you tax-free. Keep going with your AVCs. Remember, you will still get tax-relief on what you save now.

If your AVCs are comfortably below your tax-free limit, you could think about increasing your AVCs to bring this closer to your tax-free limit.

But, once you pay AVCs you can only get these back when you retire, so only pay what you can afford.

If your AVCs do not reach your full tax-free limit you can give up part of your Clergy pension for extra tax-free cash to bring you up to your maximum limit.

### What if my AVCs are over the tax-free limit?

Keep saving and get tax relief on the amount you pay in.

When you retire, we will pay as much to you tax-free as we can. With the rest, you could:

- take it as a taxed lump sum,
- move it to another pension provider and either take an income from it, or spread it over multiple tax years

All these options are classed as income. So if you take more money up front, it could push you into a higher tax band.

You could pay less tax by transferring the amount we cannot pay you tax-free to another pension provider and spreading it over more than one tax year.

If you want to, you could transfer all your AVCS to another pension provider. How the tax works would then be different.

### Should I keep building up my AVCs?

Whether your AVCs are likely to be under or over the amount we can pay you back tax-free, it is still worth building up your AVC pot.

You will still get tax relief on the money you save now. If you save more than your tax-free limit, we can still pay a large portion of your AVCs back to you tax-free.

How tax relief works depends on whether you pay AVCs through your monthly pay, or as a one-off lump sum.

### Tax relief through my stipend?

The best thing about paying monthly through your stipend is the tax relief is all sorted for you through your payroll.

If you are a 20% taxpayer, for every £100 you save, only £80 comes out of your pay, or if you are a 40% taxpayer, only £60 comes out.

If you do not pay tax, you do not get tax relief, but you might have to pay tax on your AVCs when you retire, so check whether AVCs are the best place for your savings.

You can increase, decrease or stop your AVCs at any time. Change your AVCs at [www.churchofengland.org/clergy-pay-avcs](http://www.churchofengland.org/clergy-pay-avcs)

### **Paying a lump sum**

Paying a lump sum can be a great way to give your AVCs a big boost. But be careful, you only receive tax relief on your taxable earnings, less any allowances, payroll giving and car loans etc.

If you are thinking of paying a large amount, speak to a financial adviser first to check how much tax you can claim back.

As you will have already paid tax on your lump sum, you can claim the tax back by completing a self-assessment tax return at [www.gov.uk/self-assessment-tax-returns](http://www.gov.uk/self-assessment-tax-returns)

HMRC usually refund you **after** the tax year has ended.

### **Do AVCs have a downside?**

*Once you pay into your AVCs, your savings are usually locked in*

Make sure you pay AVCs at a time that suits you and when you can afford to pay in.

If you feel you might need or want access to your money before you retire there are other tax effective ways to save, such as ISAs. But, being locked away until you retire means your money is there when you might need it most.

### *We can only pay your AVCs when you take your Clergy pension*

When you take your Clergy pension and lump sum, we must pay your AVCs at the same time. The positive side of this is that by paying everything at the same time means we can pay more of your AVCs to you tax-free than other pension providers could.

If you want to access your AVCs earlier or later than your Clergy pension you can transfer your AVCs to another pension provider. If you do this, you are likely to be able to take much less of your AVCs as tax-free cash.

### *Managing your investment choice*

The value of your AVCs can go up as well as down, and as with all investments, there is risk.

If you are invested in our “default” investment option, we manage your investment for you. We put your AVCs in riskier investments when you are some years from retirement with the aim of making the most return on your money.

When you are 5 years from your “target retirement date” we start moving your AVCs into a much safe place – cash.

Unless you have picked your own target retirement date, this is likely to be age 68. If you take your AVCs before or after this, then your money will not be invested to its full potential.

If you have picked your own investments, check how this is performing at:

***This leaflet reflects our understanding of current legislation and practice. You should always talk to a financial or legal adviser if you need specific guidance or advice.***