Fact Sheet 1

Contributing to Your SIPP

From 6 April 2006 you may make unlimited contributions to your SIPP. But you will only get tax relief on contributions you make in any particular tax year up to certain limits.

Budget 2009: Annual income of £150,000 or more

In the April 2009 Budget it was announced that from 6 April 2011 higher rate tax payers whose total income (not just earnings) is £150,000 per annum or above will not be entitled to full higher rate tax relief (this will be phased to basic rate relief only for those with income of £180,000 or more). Interim measures are to be brought in with effect from the date of the Budget, 22 April 2009, to prevent people from pre-empting the change and maximising their funding until April 2011. This applies to individuals with total income of £150,000 or more in the 2009/10 tax year, or either of the previous two tax years.

These rules may affect you if you have total income around this level where you and your employer intend contributing collectively more than £20,000 this tax year (or you are an active member of a defined benefit occupational pension scheme). Details of our current understanding of the proposed legislation are contained in a Technical Bulletin which is available on request. The proposed rules are currently under consultation. Once the final measures are agreed and laid before Parliament we will amend this Fact Sheet.

Limit on tax relief

If in a tax year you have what are called ‘relevant UK earnings’ then you can make gross contributions up to the level of those earnings and get tax relief, subject to an Annual Allowance for that tax year (see below). (General point 5 overleaf explains what we mean by ‘gross’ when contributing to your SIPP).

This is an aggregate limit that applies to the contributions you make to all registered pension schemes you are a member of (including any occupational pension scheme). Any contribution made on your behalf by another person (other than your employer) also counts towards this limit (see general points 2 and 3 overleaf).

‘Relevant UK earnings’ are defined as

- employment income (including salary, wages, bonus, overtime and commission providing it is chargeable to tax under Section 7(2) ITEPA 2003),
- income which is chargeable as trading income and is immediately derived from the carrying on or exercise of a trade, profession or vocation (whether individually or as a partner in a partnership), or
- patent income (to which s833(5B) Income and Corporation Taxes Act 1988 applies).

  Earnings that are not chargeable to income tax in the United Kingdom by virtue of a double taxation agreement are not ‘relevant UK earnings’.

If you have ‘relevant UK earnings’ in a tax year that are less than £3,600, or you do not have any such earnings at all, then you can make gross contributions of up to £3,600 in that tax year and get tax relief if you are still what is called a ‘relevant UK individual’ (defined below). Again, this is an aggregate limit that applies to the contributions you make to all registered pension schemes you are a member of (including any occupational pension scheme).

You will be a ‘relevant UK individual’ in any given tax year if

- you have ‘relevant UK earnings’ chargeable to income tax in that tax year,
- you are resident in the United Kingdom at some time during that tax year,
- you were resident in the United Kingdom, both at the time you joined the relevant registered pension scheme you are contributing to and at some time during the five tax years preceding the given tax year, or
- you have earnings from overseas Crown employment subject to United Kingdom tax in that tax year, or your spouse / civil partner has such earnings.

The Annual Allowance

Each tax year, HM Revenue & Customs (HMRC) impose an ‘Annual Allowance’ on the level of tax relievable pension savings you can benefit from in that tax year. This is an aggregate measure over all the registered pension schemes you are an active member of in that tax year.

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For the 2008/09 tax year the Annual Allowance is £235,000. The Annual Allowance will rise to £255,000 in the 2010/11 tax year. The figure for later tax years will be reviewed periodically by The Treasury.

The contributions you (or your employer) make to your SIPP will count towards this Annual Allowance. If the Annual Allowance is breached in any tax year, you will be liable to a 40% charge on the excess.

Fact Sheet 2 explains more about how the Annual Allowance rules work.

General points on claiming tax relief on contributions to your SIPP

1. The fact that all or some of your earnings are being pensioned through an occupational pension scheme does not mean you cannot contribute to your SIPP in respect of those earnings. They are still 'relevant UK earnings'. But any contribution you make to that scheme will count towards your overall limit on tax relievable contributions.

   For example, if your 'relevant UK earnings' in a tax year are £50,000 and you contribute £5,000 to an occupational pension scheme, then you will only be able to make gross contributions of £45,000 to any other registered pension scheme and get tax relief.

2. Any contributions made by your employer to your SIPP do not count towards your limit on tax relievable contributions.

   For example, if your 'relevant UK earnings' in a tax year are £50,000 and your employer makes a £10,000 contribution then you could still contribute £50,000 and get tax relief.

   However, any contributions your employer makes to your SIPP will count towards your Annual Allowance each tax year (see Fact sheet 2).

3. An individual (other than your employer) may make a contribution to your SIPP on your behalf. Such a contribution would be treated for tax purposes as if you had made it (so it would count towards your relievable limit and Annual Allowance). Any tax relief given would be based on your earnings for that tax year (so higher rate relief would only be available if you yourself were a higher rate tax payer in that year).

4. Any contribution you make on or after your 75th birthday will not attract tax relief, whether or not you have 'relevant UK earnings' or are still a 'relevant UK individual'.

5. The maximum tax relievable contributions determined as above are the gross amount that may be paid in the tax year. All of your personal contributions to your SIPP, however, are paid net of basic rate tax at the rate applicable in the tax year of payment. On a monthly basis, Pointon York SIPP Solutions Limited (PYSS) will then claim the basic rate relief deducted direct from HMRC. This reclaimed basic rate tax cannot be invested until received by PYSS. Thus for a basic rate of 20%, the actual amount you would need to pay to make a £3,600 contribution would be £2,880. You must claim any higher rate relief due direct from HMRC. Member contributions are normally eligible for tax relief at your full marginal rate. You must claim any higher rate relief due direct from HMRC. As noted on page 1, higher rate relief is to be restricted for those with total annual income of £150,000 or more from 2009/10 onwards.

6. All employer contributions are paid **gross**.

7. Before we can accept a net contribution as above, and claim the basic rate tax due from HMRC, new members must sign the declaration located in Part 7 of the main application form. Here you declare that, in any tax year, you will not claim tax relief on contributions you make to any registered pension scheme that exceed your relievable limit (so your 'relevant UK earnings' for that tax year, or £3,600 where relevant). This is also a requirement imposed on existing members of our SIPPs on 5th April 2006 as a condition of them making contributions after this date.

   You must tell us if you intend making a contribution to your SIPP over and above your relievable limit. You also must tell us if you stop being eligible to claim tax relief (so stop being a 'relevant UK individual') or it turns out that contributions you have made that attracted tax relief should not have got that relief (for example, if your expected earnings/profits for the year are not as large as you expected).