

Fact Sheet 2

The Annual Allowance and Your SIPP

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 year. This is an aggregate measure over all the registered pension schemes you are a member of in that tax year, and not just your SIPP.

At the time of print, HMRC have announced the Annual Allowance for the following tax years:

2006/07 - £215,000	2008/09 - £235,000	2010/11 - £255,000
2007/08 - £225,000	2009/10 - £245,000	

What counts against your Annual Allowance

Any contributions you make to a personal pension scheme that attract tax relief will count against your Annual Allowance, as will any contributions made by another individual on your behalf. Any contributions made by your employer will also count.

The contributions made to a scheme in a tax year will not necessarily count towards your Annual Allowance for that tax year. Some may count towards the next tax year's allowance (see comments under 'your pension input period' below).

If you are an active member of an occupational pension scheme then the measure of 'pension savings' you are deemed to have benefited from under that scheme in a tax year will not necessarily be arrived at by direct reference to the actual contributions made to the scheme, either by you or for your benefit. If you are a member of a defined benefit / final salary scheme (or what is called a "cash-balance" scheme) there is a different measure for valuing the effective level of pension savings attributable to you for Annual Allowance purposes under that scheme in each tax year. The administrator of that scheme will be able to provide you with details.

What happens if you breach your Annual Allowance in a tax year

If you breach the Annual Allowance in any tax year you will become liable to a 40% charge on the excess. You would be obliged to declare any liability to an Annual Allowance charge to HMRC through your self-assessment return.

A liability to an Annual Allowance charge does not mean that any relief granted (or due) on any contributions previously made is lost. You do not become liable to a 40% charge and lose any tax relief previously granted.

Example 1

John has taxable UK earnings of £300,000 in 2006/07. He contributes £300,000 gross in that tax year and gets tax relief on the whole contribution (as within his 'relevant UK earnings' for that year – see Fact sheet 1). All of those contributions count against his Annual Allowance for that tax year. Whilst John has breached his Annual Allowance for that tax year by £85,000 (£300,000 - £215,000), and is liable to an Annual Allowance charge of £34,000 (40% of £85,000), he is still entitled to tax relief on the £300,000 contributions made.

Your 'pension input period'

Contributions made to a scheme in a tax year will not necessarily count towards your Annual Allowance for that tax year.

Under every scheme you are a member of there will be what is called a 'pension input period'.

Under your SIPP the first 'pension input period' will start from the point contributions are first made to the scheme by you, or on your behalf (on or after 6th April 2006). Normally these periods last for 12 months and run on from each other consecutively.

Any contributions made to your SIPP in a 'pension input period' (except any you make that do not attract tax relief) count against your Annual Allowance for the tax year that period ends in. This includes any contributions your employer makes in this period (whether or not the employer gets tax relief on those contributions). So if your first 'pension input period' started on 1st January 2007 and ran for the next 12 months every (relevant) contribution made to your SIPP in that calendar year period would count against your Annual Allowance for the 2007/08 tax year; none would count against your allowance for the 2006/07 tax year.

Unless you tell us otherwise, the first and subsequent 'pension input periods' under your SIPP will be aligned by us to run with the tax year start and end dates (so your first period will end on the 5th April following the first contribution and subsequent periods will run from 6 April to 5 April). We will do this at the end of the current tax year.

This means that in any tax year, any contributions made to your SIPP

- by you (or another individual on your behalf) where tax relief is due, and
- any employer of yours,

will all count towards your Annual Allowance for that tax year (see Example 2 below).

Example 2

If in 2006/07 your taxable earnings were £150,000 and you contributed the full £150,000 (gross) to your SIPP in that tax year, you would get tax relief on the whole contribution. But if your employer also contributed £100,000 in that tax year your Annual Allowance of £215,000 would have been breached by £35,000. If you were an active member of any other scheme in that tax year the breach would be higher. Whilst this would not affect the tax relief you were entitled to on your own £150,000 contribution you would be liable to a 40% charge on that £35,000 (or higher figure if you were an active member of any other registered pension scheme). So at least a £14,000 charge would be due. You would need to declare the liability to this charge through your self-assessment return.

Changing your 'pension input period'

It is possible for you to change your 'pension input period' under Your SIPP, provided you tell us in writing in advance of the proposed new end date of your current 'pension input period'. It is not possible to extend a 'pension input period' beyond 12 months or change a 'pension input period' twice in the same tax year (so you end up with two periods ending in the same tax year).

You may, for example, want to change the timing of this period to mirror

- the 'pension input period' under any other scheme you are a member of, or
- your company / business accounting period, or
- your scheme renewal timing under your SIPP.

If you change your 'pension input period' this will mean that not all the contributions you make in each tax year to your SIPP will count against the Annual Allowance for that tax year; some will be counted against the following year's Annual Allowance (see Example 3 below).

Example 3

If your 'pension input period' ran from 1st January 2007 to 31st December 2007 then only the contributions made in the 2007/08 tax year paid between 6th April 2007 and 31st December 2007 would count against that tax year's Annual Allowance (along with contributions paid between 1st January 2007 and 5th April 2007). The contributions made between 1st January 2008 and 5th April 2008 would count against the following tax year's (2008/09) Annual Allowance (along with any contributions made up until 31st December 2008).

Information we will provide you

On the anniversary of you joining your SIPP we will send you an annual valuation report and we will do this every year whilst you are still a member of the scheme. This report will include details of the contributions made to your SIPP and confirm your 'pension input period' under the scheme for Annual Allowance purposes.

If you are an active member of any other registered pension scheme you will need to contact the administrator of that scheme to see what will count under that scheme towards your Annual Allowance in a tax year.

PLEASE NOTE: This fact sheet is based on Pointon York SIPP Solutions Limited's understanding of current legislation and HMRC Guidance at the time of print. It should not be relied upon as a statement of law, or for advice purposes. Whilst every effort has been made to ensure that the information is correct, we cannot accept responsibility or liability for any omission or inaccuracy provided in this document. Pointon York SIPP Solutions Limited is authorised and regulated by the FSA.