

Fact Sheet - Contributions

Fact Sheet | March 2010

This factsheet is intended for information purposes only. Its contents are not to be used as legal, financial or tax advice. The tax treatment and tax benefits are based on our understanding of current tax legislation.

Generally speaking, anyone under the age of 75 is entitled to contribute to a registered pension scheme, the only issue is whether or not they receive tax relief on the contribution.

Limits on tax relief

Personal contributions

UK residents can contribute up to the higher of £3,600 or 100% of their relevant UK taxable earnings. However, where the total contributions paid (by the individual and their employer) in any [pension input period](#) exceed the [annual allowance](#), there will normally be a tax charge of 40% on the excess over the annual allowance. [Special provisions](#) currently apply to those earning in excess of £130,000.

Personal contributions made in excess of 100% of relevant UK taxable earnings do not receive tax relief and do not count towards their annual allowance.

The annual allowance will not apply to any contributions made to a scheme where, in any tax year, benefits are drawn in full. However, personal tax relief will only apply if below 100% of the individual's relevant UK taxable earnings.

Non-UK resident individuals are entitled to contribute but will not be entitled to any tax relief on contributions. For non-residents who have been resident or had earnings chargeable to UK income tax in the last five years and were a UK relevant individual at the time of joining the scheme, they are entitled to contribute but will only receive tax relief on contributions up to £3,600 gross (£2,880 net).

Employer contributions

There is no limit on how much an individual's employer can contribute to their SIPP. However, employer contributions will be taken into account when testing against the annual allowance.

Year of retirement

The exception will be for any contributions made in the tax year in which benefits are drawn in full from the SIPP, in which instance there will not be a test against the annual allowance, irrespective of the value of contributions made during the pension input period. The special annual allowance still applies where relevant.

Tax relief reclaim

Personal contributions

Where an individual is entitled to tax relief we will claim the basic rate into the SIPP. This can take between 6 and 11 weeks to arrive in the SIPP bank account. Any higher rate relief needs to be claimed through the individual's tax return.



Employer contributions

For employer contributions to receive tax relief, they must be 'wholly and exclusively for the purposes of trade' as defined by ICTA 1988. HMRC have issued guidance for employers to help define this, including pages on the online Registered Pension Scheme manual.

Tax relief is given against the company's corporation tax liability and the final decision on whether the contribution is tax deductible rests with the local inspector of taxes who should be contacted if you are in any doubt.

Annual Allowance

Every 5 years, the treasury sets the annual allowance for the next five year period by treasury order; it is currently set at a level £255,000 (£245,000 until 6 April 2010) up to and including tax year 2015/16.

This determines the restriction on the total level of contributions, paid in any pension input period. Any contributions made in excess of the annual allowance will receive tax relief if the level of income is high enough but a 40% tax charge will apply.

Any contributions in excess of this amount will be subject to tax charges on the individual, even if the contributions are made by the employer. This is an aggregate measure over all the registered pension schemes the investor is a member of.

Special annual allowance

The special annual allowance was introduced on 22 April 2009 and affects those with earnings in excess of £130,000 (£150,000 between 22 April and 9 December 2009).

For those affected a special annual allowance applies of £20,000 (£30,000 for those with average irregular contributions in the last 3 years of £30,000 or more). Those already making regular contributions before 22 April 2009 can continue without charge. However, any increase above this allowance will incur personal tax charges even if the contribution is made by the employer. Special care and a full review of the current rules is advised if there is a chance an individual may be subject to these rules as the legislation is not finalised.

Pension Input Periods

Every client has a pension input period (PIP) for each registered pension scheme they are a member of and they may all be different. A PIP for a money purchase scheme such as a SIPP commences either:
when the first contribution is paid, if it is after 6 April 2006;
or on 6 April, if they were making contributions prior to 6 April 2006.

The initial PIP does not have to end 12 months after its commencement. It may end on an earlier, more convenient date. This date may be chosen by the scheme administrator or member. Please note that only one PIP for a client can end in each tax year for each registered pension scheme of which that client is a member. If you do not notify us otherwise, we will default all PIP end dates to the next 5 April following the first contribution being paid.

For an example of how a pension input period could be used and benefit you, please refer to our [case studies](#) section.

Salary Sacrifice

Salary Sacrifice is offered by some employers as a means for their employees to receive increased pension scheme contributions.

How does it work?

Part of the salary is 'sacrificed'. This amount is then paid to the pension plan directly by the employer, rather than to the employee.

As a result of the lower salary, both the employer and employee pay less National Insurance contributions (NIC). Normally, as part of the salary sacrifice savings, the employer pays part of the NIC savings into the pension plan along with the sacrificed amount.

For an example of how salary sacrifice can benefit you please refer to our [talking points archive](#).

