



Fact Sheet 1

Contributing to Your SIPP

This Fact Sheet explains which contributions made to your SIPP qualify for tax relief and how this is applied.

You may make unlimited contributions to your SIPP, but you will only get tax relief on contributions up to certain limits.

Budget June 2010: abolition of Special Annual Allowance

In the June 2010 Budget the Chancellor announced that the complex rules surrounding the Special Annual Allowance that was introduced by the previous government would be abandoned. He qualified his comments by confirming that the revenue that would have been raised by the SAA would instead be raised by alternative means; subsequently it has been confirmed that the method that will be used to generate this revenue is a dramatic reduction in the Annual Allowance to £50,000.

As a general principle, from 2011/12 tax year the maximum total contributions to all pension schemes, by employer, individual and any third parties, will be £50,000. The Chancellor has, however, rolled back the years somewhat by reintroducing an old concept called 'carry forward', albeit with somewhat different rules, that will enable individuals who do not use up the whole of their Annual Allowance in a particular year to use the balance in one of the next three tax years.

The details shown below of these new rules are based on our understanding of the draft legislation that was published in December 2010 and is expected to apply from 6 April 2011.

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 also

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).

The Annual Allowance 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 from overseas Crown employment which are subject to UK tax.

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) imposes 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 of which you are an active member in that tax year.

For the 2011/12 tax year the Annual Allowance is £50,000. The Annual Allowance is not expected to increase for the foreseeable future.

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 some or all 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. 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 £30,000 and your employer makes a £10,000 contribution then you could still contribute £30,000 personally 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'. Pointon York will not accept contributions after your 75th birthday.
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 (Pointon York) will then claim the basic rate relief deducted direct from HMRC. This reclaimed basic rate tax cannot be invested until received by Pointon York. 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.

6. All employer contributions must be 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 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.

In addition you must inform 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).

The deadline for this notification is the end of the tax year concerned, or, if later, 30 days after you became aware of the change in your circumstances.

8. If your contributions, other than those from your employer, in a particular tax year exceed your earnings (and so would in part not be eligible for tax relief) you may request a refund of the excess contributions. *There is no equivalent facility for a refund if the total contributions, including those from your employer, exceed the Annual Allowance.*

Further clarification on the above may be obtained by contacting us on
t: 01858 419300 or
e: enquiries@pointonyork.co.uk

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 Financial Services Authority.

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