



Fact Sheet 2

The Annual Allowance and Your SIPP

This Fact Sheet explains how your SIPP is affected by the Annual Allowance, detailing what the limits are and how it is calculated.

The Annual Allowance is a device by which HM Revenue & Customs (HMRC) limits the amount of tax privileged pension savings paid by or in respect of an individual in a tax year. The limit is in respect of the total of all contributions to all pension schemes of which you are a member (i.e. NOT just your SIPP) and has been set at £50,000 with effect from 6 April 2011.

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 personally to a tax charge on the excess, which is designed to offset the tax relief that you receive on the excess contributions. You would be obliged to declare any liability to an Annual Allowance charge to HMRC through your self-assessment return. The amount of the charge will be calculated as the amount of tax that would be charged on the excess if it were added to your taxable income for that tax year.

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 tax charge and lose any tax relief previously granted.

Example 1

John has taxable UK earnings of £80,000 in 2011/12. He contributes £80,000 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. John has breached his Annual Allowance for that tax year by £30,000 (£80,000 - £50,000) and is liable to an Annual Allowance charge of £12,000 (40% of £30,000), which offsets the tax relief that he receives on the excess over the £50,000 Annual Allowance for 2011/12.

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 of which you are a member there is a 'Pension Input Period' (PIP). When you join a new pension scheme the first PIP will start from the point



contributions are first made to the scheme by you, or on your behalf. Normally PIPs last for 12 months and run on from each other consecutively.

Any contributions made to your SIPP in a PIP (except any you make that do not attract tax relief) count against your Annual Allowance for the tax year in which that period ends. 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 PIP started on 1st January 2010 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 2010/11 tax year; none would count against your allowance for the 2009/10 tax year.

Unless you tell us otherwise, the first and subsequent PIPs under your Pointon York 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 tax year in which you complete your application.

This means that in any tax year, any contributions made to your Pointon York SIPP by:

- you (where tax relief is due),
- another individual on your behalf (also 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 2011/12 your taxable earnings were £45,000 and you contributed the full £45,000 (gross) to your SIPP in that tax year, you would get tax relief on the whole contribution. But if your employer also contributed £40,000 in that tax year your Annual Allowance of £50,000 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 £45,000 contribution you would be liable to a tax charge

on that £35,000 (or higher figure if you were an active member of any other registered pension scheme). 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 PIP under your SIPP, provided you tell us in writing in advance of the proposed new end date of your current PIP. It is not possible to extend a PIP beyond 12 months or change a PIP 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 your PIP to mirror:

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

If you change your PIP 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 PIP runs from 1st January 2010 to 31st December 2010 then only the contributions made in the 2010/11 tax year paid between 6th April 2010 and 31st December 2010 would count against that tax year's Annual Allowance (along with contributions paid between 1st January 2010 and 5th April 2010).

The contributions made between 1st January 2011 and 5th April 2011 would count against the following tax year's (2011/12) Annual Allowance (along with any contributions made up until 31st December 2011).



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 PIP 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.

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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