Sippdealxtra
YOUR SIPP : YOUR BROKER

Budget FAQs

This year's Budget saw a number of headline grabbing announcements but it is clear that the issue that will, above all others, affect a minority of pension savers is the reduction in tax relief on pension savings for those with taxable incomes of £150,000, or more, which comes into effect from 6 April 2011.

The Government have introduced interim measures to prevent individuals who might be affected by these changes from benefiting from excessive higher rate tax relief in the intervening period.

These measures see the introduction of a Special Annual Allowance and a Special Annual Allowance Charge of 20% on any individual who:

- has relevant income of £150,000, or more, in any of the tax years from 2007/08 to 2010/11; and
- increases their pension savings on, or after, 22 April 2009, beyond their normal, ongoing, pension saving patterns, and
- has total annual pension savings to all registered pension schemes exceeding the Special Annual Allowance (£20,000 for 2009/10).

This is not in itself a particularly complex framework to understand but the Government, believing the rules would be too simple to get around, introduced a more complex set of rules surrounding the framework. We have set out below our understanding of these rules as an aid for you in deciding on appropriate contribution levels in the run up to 2011.

What is "relevant income"?

The simple answer is almost all taxable income, from whatever source, including earnings from employment and self-employment and income on investments and savings (e.g. dividends and interest payments). It is not the same, and not as straightforward as, "UK relevant earnings".

When calculating your relevant income, the starting point is that you need to include earnings from employment and/or self-employment. On top of this you also need to include income from virtually all personally held investments and any income from pension schemes (state or private). In addition, and this closes one of the loopholes that the Government felt might otherwise have been exploited, you also need to add any income that has been sacrificed in order for your pension savings to be increased, through the payment of employers' contributions (or otherwise), where that sacrifice was agreed on or after 22 April 2009.

From this figure you may then deduct any relievable pension contribution made in the tax year, but subject to a maximum deduction of £20,000. Finally you may also deduct the amount of any donations made which qualify for gift aid.

If the figure arrived at is £150,000, or more, then you meet the first criteria for the Special Annual Allowance Charge.

As a final complication, even if you don't have income of £150,000, or more, in 2009/10 you also need to look at the two previous tax years. If your relevant income in either of those tax years was £150,000, or more, then you meet the first criteria for the Special Annual Allowance Charge.

How are "normal, ongoing pension savings" defined?

Pension savings include contributions paid by you, or someone else on your behalf (including an employer), and also any increase in the value of benefits under a final salary scheme.

Normal, ongoing pension savings means contributions that are being paid to a SIPP or SSAS on a quarterly or more frequent basis. If contributions are paid on a less frequent basis, e.g. on an annual basis or as a series of "one off", single contributions (say at the end of a company or tax year), then currently these would not meet this definition.

If there is any break in the regular contribution pattern, for example your employer fails to make a payment in a particular month, then any subsequent contributions may no longer be treated as normal, ongoing pension savings. It depends on the number of failures to pay contributions and whether this is "insignificant".

This means that if your SIPP was receiving regular monthly member, or employer, contributions before 22 April 2009 and continues to receive those afterwards, you will not face a test against the Special Annual Allowance in respect of those contributions. If you increase your regular contributions, or pay a single contribution, a Special Annual Allowance Charge may apply.

The total annual amount received through normal, ongoing, regular savings as at 21 April 2009 is referred to as a Protected Pension Input Amount.

The Government has indicated that it is prepared to listen to the views of the financial services industry on how this definition could be amended to take account of less frequent but regular savings patterns. One proposal is that the amount of normal ongoing pension saving should be the average of contributions paid over the last three tax years. However, it is by no means certain that the Government will agree to make any change to the current definition proposed.

How does a Protected Pension Input Amount interact with the Special Annual Allowance?

A Protected Pension Input Amount is not in itself tested against the Special Annual Allowance but it does reduce it.

Using an example, Mr. Jones' SIPP has been receiving ongoing regular net contributions of £800 per month (£1,000 gross) since the SIPP was established. This means that he has a Protected Pension Input Amount of £12,000 in the 2009/10 tax year.

Knowing that his regular contributions are protected from the Special Annual Allowance, Mr. Jones might believe that he can pay a further net contribution of £16,000 (gross £20,000), the amount of the Special Annual Allowance limit.

However, because his Special Annual Allowance is reduced by the amount of his Protected Pension Input Amount to £8,000 (£20,000 - £12,000), he will face a Special Annual Allowance Charge of 20% on the excess of £12,000 (£20,000 - £8,000).

What if I have already paid single contributions exceeding £20,000 in this tax year?

Any single contribution paid between 6 April 2009 and 21 April 2009 is also protected and so in itself will not lead to a Special Annual Allowance Charge being payable.

However, as with regular contributions, any single contributions paid between 6 April 2009 and 21 April 2009 will reduce your Special Annual Allowance.

Is there a test against the Special Annual Allowance if I crystallise all benefits under my SIPP?

Contributions made by individuals are not tested against the Annual Allowance in a tax year if they crystallise all benefits under that arrangement in that tax year.

For SIPPs the same does not apply for the Special Annual Allowance. Even if you crystallise all of your benefits you will not avoid the test.

Can I amend pension input periods in the same way that I can with the Annual Allowance?

No, the test against the Special Annual Allowance is always carried out on a tax year basis.

If I pay contributions exceeding the Annual Allowance could I have to pay a Special Annual Allowance Charge and an Annual Allowance Charge?

The Special Annual Allowance will operate alongside the current Annual Allowance. However, if you would be subject to an Annual Allowance Charge and the Special Annual Allowance Charge, then the Special Annual Allowance Charge would be reduced to prevent double charging.

Can you refund contributions if I exceed the limit by mistake but don't meet any of the other refund criteria?

Yes, this is called a Contributions Refund Lump Sum. This type of refund is only available if you have relevant income of £150,000, or more, and can only be made in respect of member contributions. Employer contributions cannot be refunded.

The refund can only be made in the tax year immediately after the tax year in which the contribution was paid (i.e. a contribution paid in 2009/10 cannot be refunded until 2010/11). A refund cannot be made in the same tax year as the contribution and you do not have up to six years to request a refund as you would for a contribution that exceeded your earnings.

When making the refund, we must pay the gross amount of the contribution(s), but subject to a tax charge of 40%. We will account for the tax to HMRC through the quarterly Accounting for Tax Return.

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