



Pension Contributions and Tax Relief

Rules applying from 6 April 2006 had the effect of replacing those of the eight previous tax regimes with a unifying set of requirements which apply to all registered pension schemes.

Scheme Members

Any member of a registered pension scheme may make unlimited contributions to a registered pension scheme. However to qualify for tax relief a contribution must be a *relievable pension contribution* made by a *relevant UK individual*.

Most member contributions are relievable, unless they fall into any of the following categories:

- contributions after age 75
- contributions paid by employers (see below)
- age related rebates or minimum contributions by HMRC to a contracted-out pension scheme

A relevant UK individual is an individual who

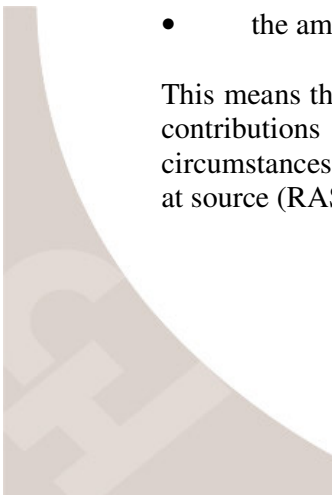
- has relevant UK earnings chargeable to income tax for that tax year
- is resident in the UK at some time during the tax year
- was resident in the UK at some time during the immediately preceding five tax years and also when joining the pension scheme

The maximum amount of contributions on which a member can claim relief is the greater of:

- the *basic amount* (currently £3,600)
- the amount of the individual's relevant UK earnings for the tax year

This means that a member who has no relevant UK earnings may still qualify for tax relief on contributions into a registered pension scheme up to the basic amount. The relief in these circumstances can be given only if the contribution is made to a scheme that operates the relief at source (RAS) system. The relief is available even if the individual is a non-taxpayer.

E-mail: help@clarkhowes.com
www.clarkhowes.com



A registered pension scheme must operate RAS unless the scheme rules specifically provide that it can operate net pay arrangements or accept contributions gross from members. Under RAS, premiums are paid net of basic rate tax which is claimed back by the scheme administrator. Higher rate relief can be claimed through the member's Self Assessment tax return.

With net pay arrangements, the employer deducts the relievable pension contribution from employment taxable income before operating PAYE (so tax relief is obtained by paying the contribution out of pre-tax income). A member making payments in full (that is, out of after-tax income) has to claim the tax relief from HMRC, generally through the Self Assessment system or PAYE code.

If the total contributions result in the *Annual allowance* being exceeded, there might be a tax charge on the member (see below).

Employers

Any employer of a member of a registered pension scheme may make contributions to that registered pension scheme. Unlike for scheme members, there is no set limit on the amount of tax relief that an employer may receive in respect of its contributions.

Other persons

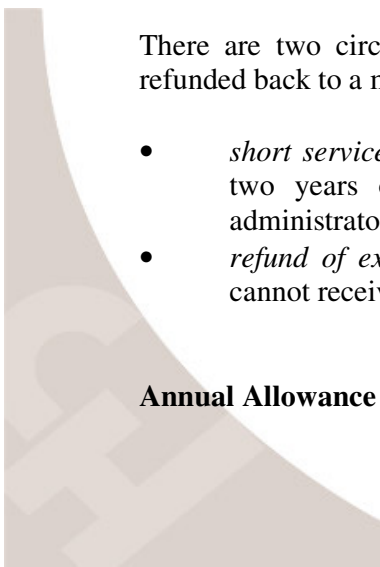
A person other than a member or employer may make a contribution to a registered pension scheme in respect of a member of that scheme. A person can be an individual, a corporate body or other legal entity. Where the contribution is paid under RAS, it is only the member who may claim higher rate relief on the contribution. Where a third party pays a RAS contribution, such contributions are treated as if made by the individual who is the member of the scheme, not the person who made the contribution. The contribution is paid net, and the basic rate tax is claimed by the scheme on behalf of the member, who can claim higher rate relief in the normal way.

Refund of Contributions

There are two circumstances where contributions to a registered pension scheme may be refunded back to a member:

- *short service refund lump sum*, where an employee leaves pensionable service within two years of joining an occupational pension scheme (taxable on the scheme administrator)
- *refund of excess contributions lump sum*, to cover the amount of contributions that cannot receive tax relief (tax free)

Annual Allowance Charge



The annual allowance charge is a tax charge on the individual. It arises where the *total pension input* for an individual in *pension input periods* which end in the tax year concerned exceeds the amount of the annual allowance for that tax year.

The amount of the annual allowance charge is 40% of the amount by which the input exceeds the allowance, and this will normally be collected via the self assessment Tax Return.

The total pension input amount is the increase in value of the aggregate of all of the individual's pension savings. The pension input period is usually the year to the anniversary date which falls within the relevant tax year.

The annual allowance for the tax year 2010-11 is £245,000, and this rate will be held constant for a further five tax years, ie up to and including the tax year 2015-16.

Example

Alison is a member of two different schemes. Scheme A has a pension input period ending on 31 March; Scheme B's ends on 30 November. During the tax year ending 5 April 2010, her total pension input amounts are:

Scheme A (year to 31 March 2010)	£113,000
Scheme B (year to 30 November 2009)	<u>£147,000</u>
Total pension input amount	<u>£260,000</u>

As the annual allowance for 2009-10 is £245,000, Alison will be taxed on the excess of £15,000. The annual allowance charge will therefore be £6,000 (40% of £15,000).

A charge may also arise in respect of contributions where an individual has relevant income of £130,000 or more.

