



HOW TO TEST PENSION SAVINGS AGAINST THE ANNUAL ALLOWANCE

This fact sheet outlines how pension savings are tested against the annual allowance.

The Pensions Advisory Service is unable to give individual specific advice and you should seek alternative tax or independent financial advice.

Useful Terms

Pension input amount

- For a defined contribution scheme, this is the contributions paid in the pension input period, and includes your own contributions as well as those from your employer.
- For a defined benefit scheme, this is the increase in annual pension in the pension input period.

Pension input period

The interval over which the amount of saving (pension input amount) into a scheme is measured. The measurement works on the principle of how much was saved between the start and end of the interval. A pension input period is usually a year long, but does not necessarily coincide with tax years.

Testing Against the Annual Allowance

Defined contribution schemes

The pension input amount is the contributions paid to the scheme by you or on your behalf during the pension input period.

There are exemptions for certain pension input amounts:

- National Insurance rebates to a contracted-out occupational defined contribution scheme, personal pension scheme or stakeholder pension scheme.
 - Your contributions after you have reached age 75.
 - Investment income growth in the fund.
 - Pension credits and debits on divorce or the end of a registered civil partnership from a registered pension scheme.
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- Transfer values paid to or received from another registered pension scheme or qualifying overseas pension scheme. Other types of transfer values count towards the pension input amount.
 - Premiums paid into a personal pension scheme or S226 contract (retirement annuity contract) by an insurance company under a waiver of contribution contract. This is because you cannot claim tax relief on these contributions.
 - Contributions which are life assurance premium contributions and do not qualify for tax relief.

NB. Contributions which exceed your relevant UK earnings are now included in the pension input amount.

Defined Benefit Schemes

The pension input amount is the increase in your annual pension during the pension input period. It is worked out by finding the difference between your annual pension at the start and end of the pension input period. The increase between the two amounts is then multiplied by 16.

The pension at the start of the pension input period is increased by the rise in the Consumer Price Index (CPI), which may reduce the tax charge. The CPI figure used is for the twelve month period to the September before the start of the tax year of calculation (For example, if the calculation is carried out in the 2011/12 tax year, the CPI increase will be the twelve month increase to September 2010).

Special rules apply for those arrangements where the pension input period straddles 14 October 2010 and ends in the 2011/12 tax year. Please refer to our factsheet – ‘Spotlight on the annual allowance transitional rules’.

If you have ended your active membership of a scheme and are not therefore building up service, increases in your benefits can be disregarded. An increase in your deferred benefits is allowed, provided that it is not more than either CPI or as specified in the scheme rules.

If you have left a pension scheme but your future benefits are linked to your final salary, you are not exempt from the annual allowance test. This is because you are still building up benefits due to the continued salary link.

There are exemptions for certain pension input amounts and these are:

- Pension credits and debits on divorce or the end of a civil partnership from a registered pension scheme.
- Transfer values paid to or received from another registered pension scheme or qualifying overseas pension scheme. Other types of transfer values count towards the ‘pension input amount.’

What is my pension input period?

Each pension arrangement will have its own pension input period which may not be the same as the tax year. A pension input period generally runs for 12 months and you will need to speak to your scheme administrator or pension provider to find out the period for your scheme

In a defined contribution pension scheme, either you or your pension provider can nominate the pension input period. In a defined benefit pension scheme, your pension scheme administrator nominates the pension input period.

If there is no nominated pension input period, it will be aligned with the tax year. This is known as the 'default pension input period'.

How does the pension input period interact with getting tax relief on pension contributions in a tax year?

You can usually pay pension contributions up to 100% of your earnings from employment, or £3600 gross if higher, during a tax year. Contributions for tax relief purposes apply across a tax year and this is entirely separate to the annual allowance test, which applies to pension accrual over pension input periods ending in a tax year. Please see 'Spotlight on using a redundancy payment to pay into a pension' for an example of this.

About Us

The Pensions Advisory Service has been providing free help and guidance to members of the public on pension matters since 1983 either by telephone or written advice. We can also help people who have a pension complaint or dispute.

Contacting us

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