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## USING A REDUNDANCY PAYMENT TO PAY INTO A PENSION

This fact sheet gives an example of how part of a redundancy payment may be used to pay into a pension.

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

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### Key Facts

- The first £30,000 of any redundancy payment (which is generally paid tax free) is not regarded as earnings by HM Revenue & Customs (HMRC).
  - Broadly speaking tax-relievable pension contributions can be paid up to 100% of employment earnings (or £3,600 gross if higher) during a tax year.
  - Contributions for tax relief purposes apply across a tax year. This is entirely separate to the annual allowance test, which applies to increases in pension saving over pension input periods ending in a tax year. Please see our fact sheet 'Spotlight on how to test increases in pension savings against the annual allowance for more details.
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### Example

**Tax year 6 April 2009 to 5 April 2010**

**Contributions may not exceed 100% of earnings**

You have £50,000 earnings in the 2009/10 tax year. In that tax year you contributed a gross contribution of £23,000 on 5 May 2009 and another gross contribution of £25,000 on 6 November 2009 (£48,000 in total).

You are made redundant on 1 March 2010 and receive a redundancy payment of £10,000 on that day. You want to use £5,000 as a pension contribution to your private pension arrangement before the end of the tax year i.e. by 5 April 2010.

The first £30,000 of any redundancy payment (which is generally paid tax free) is not regarded as earnings by HM Revenue & Customs (HMRC). This means that none of the £10,000 redundancy payment is regarded as earnings. You can only pay a further £2,000 tax-relievable payment into your pension arrangement (i.e. £50,000 earnings less £48,000 contributions already paid in the 2009/10 tax year). Unless you have further earnings in the 2009/10 tax year, no other tax-relievable contributions can be made for that tax year.

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## The separate annual allowance test

The annual allowance effectively caps the limit on how much tax relief you can claim. Increases to pensions built up in defined benefit pension schemes (e.g. final salary schemes) and contributions paid to defined contribution pension schemes that are more than the annual allowance are subject to a tax charge. Please see our fact sheet 'Spotlight on how to test increases in pension savings against the annual allowance' for more details.

In our example, your pension arrangement has a 'pension input period' that runs from 1 June 2009 to 31 May 2010 inclusive. The pension input period ends in the 6 April 2010 to 5 April 2011 (2010/11) tax year. Any contributions paid in this period will therefore be tested against the annual allowance for the 2010/11 tax year (which was £255,000) for the purposes of determining whether a tax charge is payable. So the contribution made on 6 November 2009 of £25,000 and the £2,000 contribution (if paid as intended) will be tested against the £255,000 annual allowance for the 2010/2011 tax year. As it is within the allowance, no tax charge arises.

The £23,000 contribution made on 5 May 2009 falls in the previous 'pension input period' ending 31 May 2009 and as this date falls in the 2009/2010 tax year it would have been tested against the annual allowance for the 2009/2010 tax year.

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### Tax year 6 April 2010 to 5 April 2011

If you are not working, from 6 April 2010 you will be able to make a tax-relievable contribution of £3,600 gross in respect of the 2010/2011 tax year. If you start work again, you can make higher contributions of up to 100% of your earnings.

Any contributions made to the same scheme by 31 May 2010 will be included in the test against the annual allowance for 2010/2011. This is because the pension input period ends in that tax year.

Contributions made to the scheme from 1 June 2010 will be tested against the annual allowance for the 2011/2012 tax year as a new 'pension input period' will start on 1 June 2010 and end 31 May 2011.

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## 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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