TECHNICAL NOTE
PENSION INPUT PERIODS AND THE ANNUAL ALLOWANCE

Scottish Widows Platform

For Professional Advisers only

Pension Input Period

A 'pension input period' (PIP) is a period of time over which the pension input amount under an arrangement is measured, so that a check can be made to see if the Annual Allowance for the related tax year has been exceeded.

At the end of each tax year, all of the pension input amounts made during PIPs ending in that tax year are added together. The total is then checked against that year's Annual Allowance to determine whether an Annual Allowance charge is due.

A PIP will always commence when a client's rights begin to accrue under an arrangement or where a contribution is first paid in the case of a money purchase arrangement.

With effect from the Summer Budget Statement of 8 July 2015, all future PIPs starting from 6 April 2016 were aligned to tax years. Transitional rules applied to existing arrangements that were active on 8 July 2015 and these are covered later on in this factsheet.

Annual Allowance

The Annual Allowance, which operates separately to the tax relief rules, is a cap on tax relievable pension input amounts (pension savings) that a client can have each tax year without incurring a tax charge. The standard Annual Allowance is currently set at £60,000, however, some high earners and also those who have started taking their pension benefits may have a lower Annual Allowance. Any excess is normally subject to a tax charge at the clients marginal rate of income tax for earned income.

To assess whether the Annual Allowance is exceeded, all pension input amounts (pension savings) for clients for the tax year concerned are added together.

The most common pension input (pension savings) calculations are:

- For defined contribution arrangements:

  All relievable personal contributions, and any other contributions, including employer contributions, paid on behalf of the client to a money purchase scheme.

- For defined benefit schemes:

  Any increase in the client's pension, and where appropriate, separate pension commencement lump sum (PCLS) entitlement during the pension input period.

In this case, the input value is assessed as 16 times the increase in pension benefit with any increase in PCLS entitlement taken at face value.

Annual Allowance Tax Charge

Pension input amounts (pension savings) over the Annual Allowance will be subject to an Annual Allowance tax charge at the client's marginal rate of income tax for earned income.

It may be possible for the client to elect for the relevant pension scheme to pay the charge on their behalf. This is known as 'Scheme Pays'.

Money Purchase Annual Allowance (MPAA)

The MPAA was introduced on 6 April 2015 and reduced the Annual Allowance in certain circumstances. The MPAA only applies to money purchase contributions. A client who triggers the MPAA can still accrue benefits in a defined benefit scheme up to a value of £60,000 a year, less any money purchase contributions within the MPAA, before an Annual Allowance tax charge applies.

Key point summary

As it is not now possible to change PIPs, it is important to make contributions by the end of the tax year.

It may also be possible to increase the level of contributions by carrying forward unused Annual Allowance from previous years.

If a client has triggered the MPAA they will have a reduced Annual Allowance. Anyone who needs to save more than this annually will have limited options, thereby compromising their long-term savings plans and restricting future access to long-term income.

For more information on the Scottish Widows Platform, please contact your consultant.
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