

## Pension input periods

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If you want to be able to accurately identify the maximum pension contributions that an individual can make at any particular point in time, you have to be comfortable with pension input periods. In this session we are going to look at what they are, why they are important and any issues surrounding them.

First of all a pension input period is quite simple, it is just a period time in which relievable pension contributions are measured to determine whether or not the annual allowance has been exceeded for a particular tax year.

Before I go into the actual detail of pension input periods, it's probably best if I set the scene.

The term pension input period was created with pensions simplification in April 2006. It is key mechanism to determine whether or not an individual will be subject to an annual allowance charge in any particular tax year. It has been of relative insignificance up until this point for the majority of people. This is because the annual allowance has been set at such a high level. For example, in the 2010/2011 tax year it was £255,000. It is very rare that an individual would have pension savings which would have been able to get up to that level.

The Government are keen to create a fair affordable and sustainable pensions tax system. Over the past decade the pension tax relief bill has doubled, and at the same time the proportion of tax relief going to the highest paid has also increased, such that 25% of pension tax relief given went to just 2% of pensions savers. This is a situation that the Government decided could not continue.

There are a few key points to be aware of with pension input periods. They don't necessarily align with the tax year. They are capable of being amended by the member,

but only in certain types of schemes, for example in a money purchase scheme like a personal pension it is possible for the individual to nominate a different end date. For a defined benefit pension scheme, the scheme administrator sets the pension input period. Each pension arrangement will have its own pension input period, so you don't have one pension input period for an individual for all of their registered pension schemes; each arrangement has its own specific period.

Before taking any action required simply in terms of planning it's really important to know the pension input periods for each arrangement that the individual is either paying contributions to, or is accruing pension benefits over the tax year.

There are certain rules for pension input periods that you need to be aware of. You can only have one pension input period per arrangement per tax year. It is not possible to have two end dates in one tax year. Generally your pension input period will last for twelve months. Now there are some slightly different rules for plans which were set up before 6 April 2011 in terms of how long the pension input period lasts.

For example, if the plan began before 6 April 2011 the first pension contribution might have been made on 10 June 2010. The first pension input period will last until 10 June 2011. Subsequent pension input periods will then run from 11 June to 10 June each year.

There has been some slight amendment to the rules provided by the Finance Act 2011, so that for pension plans which commence on or after 6 April 2011 the first pension input period will run from the date the first relievable contribution is made to that arrangement and ends automatically on the following 5 April.

For example, you could have an arrangement set up on 20 May 2011 and

the first pension input period will end on 5 April 2012. This is quite key, as first pension input periods commencing before the 6 April 2011 will generally last for a year and a day. Any contributions you might make in this pension input period will be treated against the next year's annual allowance. The new rules which come into effect for new arrangements set up on or after the 6 April 2011, the pension input amount will be tested against this year's annual allowance unless a nomination has been made to end it later.

There are two issues to consider for the 2011/2012 tax year:

- Funding into any arrangement where the client is in a second or subsequent pension input period that started on or after 7 April 2010, will have a value set against the 2011/12 tax year.
- The annual allowance for the 2011/2012 tax year is £50,000, but you can carry forward unused annual allowance from three previous tax years, so you can make total contributions in excess of £50,000.

The Government announced the changes to the annual allowance on 14 October 2010. It's very possible that individuals made significant contributions before that date in anticipation of the annual allowance being £255,000 in the 2011/12 tax year. As a result there are transitional rules for pension input periods that commenced before the 14 October 2010 but end in the 2011/12 tax year. These are known as straddling pension input periods. To determine whether an annual allowance charge applies for straddling pension input periods, the legislation splits the pension input period into two parts. From 14 October to the end of the pension input period the maximum contribution that can be made is £50,000. For the first part of the pension input period which starts at the beginning of the pension input period and ends on 13 October 2010, the maximum amount is £255,000 less any amount made in the second pension input period.

For example, the total contributions in that pension input period cannot exceed £255,000. £50,000 may have been made in the pension input period 14 October to

the end. This means no more than £205,000 could have been made up to 14 October.

Things to look out for:

Before funding you need to know when the current pension input period ends. Before using any carry forward from the three previous tax years 08/09, 09/10, 10/11 you need to know when the pension input period ends in those tax years and the amount of pension contributions made in those periods. Once identified you've got a full history and can work out exactly what maximum contribution you can make in the 2011/12 tax year.

It has been possible to retrospectively change pension input period end dates to increase the amount of carry forward that might be available. However, with effect from the date of Royal Assent it is no longer possible to nominate an end date in the past. Therefore, you will only be able to end the pension input period on the date you do the nomination or at a later date in the tax year.

It could be useful to change input periods for 2012/13 annual allowance purposes. If you were looking at doing advanced funding for the 2012/13, you have three options.

1. Wait until the pension input period ends in the 2011/12 tax year and then make the contribution after then so it will be tested against the annual allowance for the tax year 2012/13.
2. Set up a brand new arrangement so that its pension input period will end next tax year. However, because of the new rules for arrangements set up from 6 April 2011 the member will have to make a nomination to end the pension input period in the 2012/13 tax year.
3. The alternative is to amend the end date of the current pension input period for 2011/12 to an earlier date in 2011/12 and then make a further contribution.

In summary, it is still possible for individuals to make large contributions in the 2011/12 tax year. This may be of

particular use for those clients who want to increase their funding before registering Fixed Protection, which needs to be done by 5 April 2012.

So the key element is find out when PIPs run to, and for each of those arrangements work out exactly the total pension contributions that relate to those periods.

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