

TECHNICAL BRIEFING NOTE

What is a pension input period?

The pension input period is the period used to measure an individual's pension provision (known as the pension input amount) under a registered pension scheme for the purpose of testing this against their pension annual allowance for the tax year in which that period ends.

Each arrangement within a registered pension scheme has its own pension input period, which is not necessarily the same as a tax year. This means that an individual can have different pension input periods for different pension schemes they are members of - possibly even for different arrangements within a single registered pension scheme.

- The first pension input period for a pension arrangement starts when the first contribution is paid to it (money purchase arrangements) or when benefits start to accrue under it (defined benefit arrangements). It normally ends on the anniversary of the start date (that is, after a year and a day), although it can be changed. For example, a first pension input period starting on 1 May 2006 will end 1 May 2007.
- For pension arrangements already in place at 5 April 2006, the first pension input period started when the first contribution was paid (money purchase) or when benefits were first accrued (defined benefit) after that date.
- Subsequent pension input periods begin immediately after the end of the previous period and, unless they are changed, run for a year exactly. For example, a second pension input period starting on 2 May 2007 will end on 1 May 2008.
- The last pension input period for an arrangement automatically ends when the individual has either become entitled to all benefits under that arrangement or died. However, from 6 April 2011, this will no longer be the case - the pension input period will run its course to the due end date (or earlier nominated date).

Can a pension input period be changed?

The pension input period for an arrangement normally lasts for a year (or a year and a day for the first pension input period). But it can be changed by:

- The scheme administrator; or
- In a money purchase arrangement.

The new end date of the pension input period is referred to as the nominated date. A new pension input period starts on the day after this nominated date.

Although a change to the end date for a pension input period would normally be made from a current or future date, a past date can, **up until the 2011 Finance Act receives Royal Assent (expected to be 1 July 2011)**, be nominated - even if the nominated date is in a previous tax year.

Any pension arrangement can only have one pension input period ending in any given tax year.

The procedure for changing a pension input period doesn't involve HMRC. The member just needs to tell the scheme administrator (or vice versa) the date that they want the pension input period for the arrangement to end -preferably in writing. If both the scheme administrator and the member make a nomination for the same pension input period, it's the first nomination made that sets the nominated date rather than the earliest date chosen.

Why might a pension input period be changed?

There could be several reasons for changing the end date of a pension input period. The most common reasons are as follows:

Closure by the scheme administrator

In the interests of administrative efficiency, the scheme administrator may wish to change the pension input period end date to tie in with the scheme year end date or company accounting date. As they may be providing members with scheme information at this point anyway, this could avoid separate requests from individuals for information to calculate their pension input amount.

Closure by the member

The member may wish to close a pension input period early in order to make contributions within a tax year that exceed the annual allowance for that tax year without suffering an annual allowance tax charge.

Example: manipulating the pension input period rules to avoid an annual allowance tax charge

Haiyan is a senior solicitor and her cash rich employer decided to make a pension contribution of £500,000 in 2009 to her SIPP to reward her for many years valued service to the company. She was not a high income individual and therefore, the special annual allowance did not apply.

Haiyan persuaded her employer to make the contribution in stages to avoid any annual allowance tax charges. No other contributions had been made to the scheme in recent years.

- The employer made the first contribution of £235,000 on 15 March 2009 to the SIPP. The input period for this new scheme would normally have run into the 2009/10 tax year, but Haiyan instructed the scheme administrator to end this first period early on 23 March 2009. This meant the contribution was tested against her 2008/09 pension annual allowance of £235,000.

On 30 March 2009 the employer made a further contribution of £245,000 to her SIPP. As the employer wanted to make total contributions of £500,000, the second pension input period for her SIPP was then closed on 7 April 2009 (just inside the new tax year) and because it was paid in a pension input period ending in the 2009/10 tax year, it was tested against her 2009/10 pension annual allowance of £245,000.

This allowed the remaining £20,000 contribution to be made shortly thereafter (on 8 April 2009) and, because the third input period ran into the 2010/11 tax year, it was tested against Haiyan's 2010/11 pension annual allowance of £255,000.

So, Haiyan benefited from total contributions of £500,000 to her SIPP, all paid within a month, but there was no annual allowance tax charge as the payments were split over three pension input periods, each ending in a different tax year. It should be noted that large employer contributions can, in certain circumstances, be subject to the spreading of tax relief.

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