



SIPP & SSAS OUR GUIDE TO CONTRIBUTIONS

Overview

In theory there is no longer a limit on the amount that can be contributed to a pension scheme, for the benefit of a member, either by the member or an employer. However, HMRC has set various limits that in practice will limit the amount that members and/or employers will wish to contribute to the pension schemes.

The Annual Allowance

There is an overall limit on the total amount of a member's tax-relieved pension contributions, including employer contributions, known as the annual allowance. The annual allowance for the tax year is £40,000.

Tapered Annual Allowance for High Earners

Please refer to our separate guide for further information.

Money Purchase Annual Allowance (MPAA)

From tax year 2015-16 a change was made to the annual allowance rules by the introduction of a money purchase annual allowance. Members who have a money purchase annual allowance of £10,000 also have the alternative annual allowance of £30,000 for defined benefit schemes.

There are trigger events for the introduction of the money purchase annual allowance. The most common ones are as follows:

- A member received income when they have taken a flexi-access drawdown pension from money purchase arrangements.
- A member qualified for a flexible drawdown pension before 6th April 2015.
- A member is paid an uncrystallised funds pension lump sum.

Testing of the Annual Allowance

Pension contributions for a tax year are tested against the annual allowance over a 12 month period which now falls in line with the tax year. The period is known as the pension input period.

There were also a number of changes to the annual allowance rules which were introduced on or after 6th April 2011. These are as follows:

- The annual allowance charge is linked to the member's marginal tax rate
- Any unused annual allowance can be carried forward for three years however any unused MPAA cannot be carried forward.
- The valuation factor used to calculate the value of pension defined benefits has increased from a factor of 10 to a factor of 16
- The annual allowance rules will normally now apply in the year of taking benefits.

Member Contributions

A member can contribute the greater of £3,600 and 100% of UK relevant earnings and obtain tax relief.

Member contributions to a SIPP will be paid net of basic rate tax which will be reclaimed by Taylor Patterson and credited to the member's SIPP account. If the member is a higher rate taxpayer, tax relief at the member's marginal rate of tax can be claimed through the member's self-assessment return.

Taylor Patterson does not generally accept direct contributions to a SSAS from a member. Member contributions to SSAS are paid by the employer and deducted from the member's pay.

Employer Contributions

For employed individuals, the maximum your employer can contribute is technically not restricted, but employer contributions will only be deductible as an expense against profits provided that they are incurred "wholly and exclusively for the purposes of the employer's trade or profession".

As to whether or not a contribution will meet with the "wholly and exclusively" rule is a matter for HMRC. Employers are advised to seek guidance from their accountant / tax adviser who may wish to refer to HMRC guidance on employer contributions. It is normal for your employer to keep within the annual allowance due to the tax consequences if this is exceeded. Further guidance can be found at:

- Registered Pension Scheme Manual
www.hmrc.gov.uk/manuals/rpsmanual/rpsm05102000.htm
- Business Income Manual
www.hmrc.gov.uk/manuals/bimmanual/BIM46000.htm

This is particularly relevant in respect of controlling directors and connected persons.

Contributions by Third Parties

Persons or organisations, other than the member or employer, can contribute to a member's SIPP and such contributions will be treated as net contributions and Taylor Patterson will claim a refund of tax at the basic rate for the member's SIPP. The contributor will not, however, receive tax relief and the gross contribution will count against the Annual Allowance.

Taylor Patterson is a trading name of Mattioli Woods plc which is authorised and regulated by the Financial Conduct Authority. Taylor Patterson does not generally accept direct contributions to a SSAS from a third party. However each contribution will be reviewed by Taylor Patterson on a case by case basis.

The guidance notes are aimed at financial advisers and do not constitute advice. If you are a private investor, you should always seek independent financial advice.

Taylor Patterson Trustees Ltd is the Principal Trustee of the Taylor Patterson SIPP and is the Professional Trustee and Scheme Administrator of the SSAS. Mattioli Woods plc is the Provider, Operator and Administrator of the Taylor Patterson SIPP.

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