

Special Annual Allowance - when contributions can exceed £20k, but not £30k

13 July 2009

I thought that it would be helpful to clarify the government amendment to the Finance Bill, which increases the Special Annual Allowance to £30,000 in some circumstances. NB The reference to £50,000 was in an amendment table by the opposition which was withdrawn. A new paragraph 16A has been inserted into Schedule 35, providing for an increased special annual allowance of up to £30,000 where "relevant contributions"* paid in 2006/07, 2007/08 and 2008/09 to a money purchase arrangement (other than a cash balance scheme), less frequently than on a quarterly basis, averaged over £20,000 per year.

*"Relevant contributions" means contributions which are –

- a. relievable pension contributions by or on behalf of the individual, or
- b. contributions paid by an employer of the individual in respect of the individual.

The amendment will enable individuals earning over £150,000 who usually make contributions annually, often of varying (but substantial) amounts depending on funds available towards the end of the year, to protect and retain full tax relief on the lesser of the historic 3-year average and £30,000. Without this amendment, their higher rate tax relief would have been restricted to the first £20,000 of contributions for 2009/10 and 2010/11.

Examples (in each case the client has income exceeding £150k):

Mr E has been paying £4,000 per month to a SIPP and then making annual top ups of around £100k p.a. His £4k per month was protected under the original rules as a 'relevant contribution' because it was paid quarterly or more frequently. As he was paying more than £20k p.a. he had no unused special annual allowance. The new rule does not change anything for him because he was also paying more than £30k p.a.

Mr S paid £100,000 in March 2009, having previously paid £200,000 in March 2007. He has not paid any other contributions since A Day. Under the original rule he could only have paid £20k with higher rate relief, but he can now pay £30k as this is the lower of the average contribution (£100,000) and £30k.

Mr B has paid no pension contribution since A Day but his company now wants to pay a substantial contribution on his behalf. Although the company can receive corporation tax relief on a level of contribution in excess of £100k providing that it is 'wholly and exclusively' for the purposes of the trade, any contribution exceeding £20k will result in Mr B being subject to a special allowance charge. Because no contributions have been paid the £30k is irrelevant to Mr B.