Pension Input Periods and the Annual Allowance

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 member’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 an individual can have each tax year without incurring a tax charge.

From 6 April 2023, the standard Annual Allowance increased to £60,000 (previously £40,000 for tax years 2014/15 to 2022/23), however, some high earners and also those who have started taking their pension benefits may have a reduced Annual Allowance (see Tapered Annual Allowance and Money Purchase Annual Allowance sections). Any excess is normally subject to a tax charge at the individual’s marginal rate of income tax for earned income.

To assess whether the Annual Allowance is exceeded, all pension input amounts (pension savings) for an individual 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 member to a money purchase scheme.

- **For defined benefit schemes:**

  Any increase in the member’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 (AATC)

Pension input amounts (pension savings) over the individual’s Annual Allowance will be subject to an AATC at the individual’s marginal rate of income tax for earned income. This would normally be collected via their self-assessment tax return.

It may be possible for the individual to elect for the relevant pension scheme to pay the charge on their behalf using their pension benefits. This is known as ‘Scheme Pays’.

Tapered Annual Allowance
'High-income' individuals need to be aware that there is a reduction in the standard Annual Allowance where their "Adjusted Income" exceeds £260,000 and their "Threshold Income" exceeds £200,000. Both limits need to be breached for tapering to apply.

The Annual Allowance reduction is £1 for every £2 of Adjusted Income over £260,000, subject to a minimum £10,000 Annual Allowance applying.

The definitions of Adjusted Income and Threshold Income aren't straightforward but, broadly, "Adjusted Income" refers to all taxable income plus employer pension contributions for the tax year, and "Threshold Income" to all taxable income less personal contributions for the same period.

Please note that the Adjusted Income and Threshold Income amounts have previously been:

- between 6 April 2016 and 5 April 2020, £150,000 and £110,000 respectively, subject to a minimum £10,000 Annual Allowance applying, and
- between 6 April 2020 and 5 April 2023, £240,000 and £200,000 respectively, subject to a minimum £4,000 Annual Allowance applying.

Money Purchase Annual Allowance (MPAA)
The MPAA is, in effect, a reduced Annual Allowance that was introduced as an anti-avoidance measure to prevent widespread abuse of the pensions flexibilities introduced from 6 April 2015.

It's triggered where the individual 'flexibly accesses' their money purchase savings, e.g. income withdrawals from a Flexi-Access Drawdown arrangement, an Uncrystallised Funds Pension Lump Sum etc.

From 6 April 2023, the MPAA is set at £10,000. It's previously been £4,000 for tax years 2017/18 to 2022/23 and £10,000 for tax years 2015/16 and 2016/17.

An individual 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 AATC applies.

Summer Budget Statement of 8 July 2015 – Transitional Rules

Pre-Alignment Tax Year – position up to 8 July 2015
Before the changes announced in the Summer Budget Statement of 8 July 2015, a PIP could straddle two tax years meaning that, for instance, a personal contribution could be assessed against the Annual Allowance for the tax year after the tax year in which it was paid.

Each pension arrangement had default PIP dates, which depended on when it started:

- For arrangements in force before 6 April 2006 (A-Day) the first PIP started with the first input (eg contribution) after A-Day and ended one year later.
- For arrangements started between 6 April 2006 and 5 April 2011, the first PIP started at the commencement date and ended a year later.
- For arrangements started after 5 April 2011, the first PIP started at the commencement date and ended at the end of the tax year (5 April).

Subsequent PIPs ended by default on the anniversary of the previous one.

The scheme administrator or (except for defined benefit schemes) the member could nominate a different PIP end date, subject to certain restrictions. This could allow them, for example, to pay two large contributions in quick succession by starting a new PIP.

Because each pension arrangement had its own PIP, the assessment against the Annual Allowance could be complex for an individual with more than one arrangement – perhaps an employer's scheme and a personal pension. Where an individual was a member of a scheme set up as a number of different arrangements, each of those arrangements could also have a separate PIP end date.

Although PIP rules were changed by the July 2015 Budget, the old position is still relevant for PIPs in force at the start of tax year 2015/16 and also for carry forward from previous years.

The period to 8 July 2015 is called the 'pre-alignment tax year' and, exceptionally, had an annual allowance of £80,000, or, if an individual was subject to the MPAA, £20,000.

Post-Alignment Tax Year – position after 8 July 2015
From the Budget announcement on 8 July, all PIPs were aligned to tax years from 6 April 2016. It therefore removed the ability to manipulate PIPs to allow higher immediate contributions. It also created complicated transitional arrangements for tax year 2015/16.

All active PIPs were ended on 8 July 2015. New PIPs then ran from 9 July 2015 to 5 April 2016. This meant that everyone with an active pension arrangement at 8 July 2015 had at least two PIPs for 2015/16, and three if a PIP had already ended between 6 April 2015 and 7 July 2015. However, for practical purposes, any PIP that ended before 8 July 2015 could be treated as extended to that date (and so likely to have lasted for longer than a year), while any PIP due to end between 9 July 2015 and 5 April 2016 was cut short.

The period from 9 July 2015 is known as the 'post-alignment tax year' and has no Annual Allowance of its own. However, up to £40,000 of unused Annual Allowance could have been carried forward from the pre-alignment tax year.

For those subject to the MPAA, up to £10,000 could have been carried forward from the pre-alignment tax year. This was the only situation where carry forward was available for the MPAA.

Transitional Rules 2010/11 Tax Year
There were transitional rules around PIPs that took effect from 14 October 2010.

The transitional rules did not affect anyone with annual pension input amounts of less than £50,000. They affected individuals if their PIP for tax year 2011/12 started before 14 October 2010 and worked in two parts:

Part 1: for registered pension schemes where the PIP ended in 2011/12, if total pension input amounts made on or after 14 October totalled more than £50,000 then savings over £50,000 were subject to the Annual Allowance charge.

Part 2: for registered pension schemes where the PIP ended in 2011/12, if total pension input amounts exceeded £255,000 then those were savings subject to the Annual Allowance charge. For defined benefit schemes a factor of 10:1 applies for accruals up to 13 October 2010.

The transitional rules applied alongside the facility to carry forward unused Annual Allowance from up to three previous years.

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 an individual has triggered the MPAA they will, in effect, 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.

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