

CONTRIBUTING TO AN IFGL PENSIONS' SIPP

You may only make contributions to your SIPP if you are UK resident or a Crown Servant. If you fulfil those criteria, you may make unlimited contributions to your SIPP but you will only get tax relief on contributions you make in any particular tax year up to certain limits.

LIMIT ON TAX RELIEF

If in a tax year you have what are called 'Relevant UK Earnings' then you can make gross contributions up to the level of those earnings and get tax relief, subject to an Annual Allowance for that tax year (see below). (General Point 5 below explains what we mean by 'gross' when contributing to the SIPP).

This is an aggregate limit that applies to the contributions you make to all registered pension schemes of which you are a member (including any occupational pension scheme). Any contribution made on your behalf by another person (including your employer) also counts towards this limit (see General Points 2 and 3 below).

'Relevant UK Earnings' are defined as:

- Employment income (including salary, wages, bonus, overtime and commission providing it is chargeable to tax under Section 7(2) ITEPA 2003).
- Income which is chargeable as trading income and is immediately derived from the carrying on or exercise of a trade, profession or vocation (whether individually or as a partner in a partnership).
- Patent income (to which s833(5B) Income and Corporation Taxes Act 1988 applies).

Earnings that are not chargeable to income tax in the United Kingdom by virtue of a double taxation agreement are not 'relevant UK earnings'.

If you have 'relevant UK earnings' in a tax year that are less than £3,600, or you do not have any such earnings at all, then you can make gross contributions of up to £3,600 in that tax year and get tax relief if you are still what is called a 'relevant UK individual' (defined below). Again, this is an aggregate limit that applies to the contributions you make to all registered pension schemes of which you are a member (including any occupational pension scheme).

- You will be a 'relevant UK individual' in any given tax year if:
- You have 'relevant UK earnings' chargeable to income tax in that tax year.
- You are resident in the United Kingdom at some time during that tax year.
- You were resident in the United Kingdom, both at the time you joined the relevant registered pension scheme you are contributing to and at some time during the five tax years preceding the given tax year.
- You have earnings from overseas Crown employment subject to United Kingdom tax in that tax year, or your spouse or civil partner has such earnings.

THE ANNUAL ALLOWANCE

Each tax year, HM Revenue & Customs (HMRC) impose an 'Annual Allowance' on the level of tax relievable pension savings you can benefit from in that tax year. This is an aggregate measure over all the registered pension schemes of which you are an active member in that tax year, and not just the SIPP.

The Annual Allowance is currently £60,000, unless your Adjusted Income exceeds £260,000 in which case the Tapered Annual Allowance may apply to you (see below).

As long as you have not taken either Flexi-Access Drawdown or an Uncrystallised Pension Fund Lump Sum, it is possible to carry forward any unused tax relief for up to three years.

The contributions made to the SIPP will count towards this Annual Allowance. If the Annual Allowance is breached in any tax year, you will be liable to a tax charge on the excess.

TAPERED ANNUAL ALLOWANCE

If your Adjusted Income exceeds £260,000, you may be subject to the Tapered Annual Allowance.

You first need to work out your Adjusted Income, which is essentially your net taxable income, plus adding back any pension contributions made by you or on your behalf by any third party, e.g. your employer. We cannot advise you on the calculation of your Adjusted Income. You should consult your Accountant or tax adviser.

You then also need to work out your Threshold Income. This is essentially your net taxable income less gross pension contributions paid under the Relief at Source system. Again, we cannot advise you on the calculation of your Adjusted Income. You should consult your Accountant or tax adviser. If your Threshold Income is below £220,000 the Tapered Annual Allowance does not apply to you, i.e. your Annual Allowance for is £60,000.

Therefore if your Adjusted Income is more than £260,000 and your Threshold Income exceeds £220,000, you will be subject to the Tapered Annual Allowance, whereby your Annual Allowance is reduced by £1 for every £2 that your Adjusted Income exceeds £260,000. The minimum annual allowance is £10,000.

Therefore, if your Adjusted Income is £330,000, your Tapered Annual Allowance is £25,000 and if your Adjusted Income is £360,000 or more, your Tapered Annual Allowance is £10,000.

The carry forward of unused Annual Allowance continues to be available, but the amount available is based on the unused Tapered Annual Allowance.

General points on claiming tax relief on contributions to the MW SIPP 2

1. If you are a member of an occupational pension scheme, it does not mean you cannot contribute to the MW SIPP 2 in respect of your earnings from that employment. They are still 'relevant earnings' but any contribution you personally make to that scheme will count towards your overall limit on tax relievable contributions.

For example, if your 'relevant UK earnings' in a tax year are £60,000 and you contribute £5,000 to a defined contribution occupational pension scheme, then you will only personally be able to make gross contributions of £55,000 to any other registered pension scheme and get tax relief. If you are a member of a defined benefit occupational scheme, your employer will advise you how much of your Annual Allowance is taken up as a result of your membership of that scheme in the current tax year.

2. Any contributions made by your employer to the SIPP do not count towards your limit on tax relievable contributions. However, any contributions your employer makes to the SIPP (or indeed on your behalf to any other registered pension scheme) will count towards your Annual Allowance each tax year.

For example, if your 'relevant UK earnings' in a tax year are £50,000 and your employer makes a £10,000 contribution then you could still contribute gross £50,000 and get tax relief.

3. An individual (other than your employer) may make a contribution to the SIPP on your behalf. Such a contribution would be treated for tax purposes as if you had made it (so it would count towards your relievable limit and Annual Allowance). Any tax relief given would be based on your earnings for that tax year (so higher rate relief would only be available if you yourself were a higher rate tax payer in that year).

4. Any contribution you make on or after your 75th birthday will not attract tax relief, whether or not you have 'relevant UK earnings' or are still a 'relevant UK individual'.
5. The maximum tax relievble contributions determined as above are the gross amount that may be paid in the tax year. All of your personal contributions to the SIPP, however, are paid net of basic rate tax at the rate applicable in the tax year of payment. On a monthly basis, the Scheme Administrator will then claim the basic rate relief deducted direct from HMRC. This reclaimed basic rate tax cannot be invested until received by the Scheme Administrator. Thus, with a basic rate of 20%, the actual amount you would need to pay to make a £3,600 contribution would be £2,880.

You must claim any higher rate relief due direct from HMRC via your annual tax return.

All employer contributions are paid gross.

6. Before we can accept a net contribution as above, and claim the basic rate tax due from HMRC, members must complete and sign the Contribution Declaration form for the year the contribution is made. Here you declare that, in any tax year, you will not claim tax relief on contributions you make to any registered pension scheme that exceed your relievble limit (based on your 'relevant UK earnings' for that tax year, or £3,600 where relevant). It is your responsibility to ensure that you advise us whether or not any part of your contribution to the SIPP may not be allowable for tax relief. If any contributions made are subsequently disallowed for tax relief purposes, we will make any tax payments to HM Revenue & Customs on the due date out of the assets of your SIPP.

You must tell us if you intend making a contribution to the SIPP over and above your relievble limit. You also must tell us if you cease to be eligible to claim tax relief (or cease being a 'relevant UK individual') or it turns out that contributions you have made that attracted tax relief should not have received that relief (for example, if your expected earnings/profits for the year are not as large as you expected).

WHAT HAPPENS IF YOU BREACH YOUR ANNUAL ALLOWANCE IN A TAX YEAR

If you breach the Annual Allowance in any tax year you will become personally liable to a 40% charge on the excess.

You would be obliged to declare any liability to an Annual Allowance charge to HMRC through your self- assessment return.

A liability to an Annual Allowance charge does not mean that any relief granted (or due) on any contributions previously made is lost. You do not become liable to a 40% charge on such contributions nor lose any tax relief previously granted.

INFORMATION WE WILL PROVIDE FOR YOU

On the anniversary of you joining the SIPP we will send you an annual valuation report and we will do this every year whilst you still have a SIPP. This report will include details of the contributions made to the SIPP and confirm your 'pension input period' under the Scheme for Annual Allowance purposes.

If you are an active member of any other registered pension scheme you will need to contact the administrator of that scheme to see what will count under that scheme towards your Annual Allowance in a tax year.