sackers extra

alert

PENSION INPUT PERIODS

1 INTRODUCTION

With A-Day (6 April 2006) came the introduction of the "annual allowance". Broadly, the annual allowance limits the amount of pension savings that can be made on a tax advantageous basis in relation to an individual in any tax year. It is assessed by reference to the scheme's "pension input period" (PIP) ending in that tax year. Trustees can nominate a PIP which need not correspond to the tax year and can, instead, fit in with the scheme year.

As the end of the current tax year is fast approaching, in this Alert we look at what trustees who have not yet nominated a PIP need to consider.

2 KEY POINTS

- There must be a PIP ending in each tax year (although not necessarily in the tax year 2006/07), but schemes may not have more than one complete PIP in a single tax year.
- It is not possible to extend a PIP beyond a year.
- Trustees may nominate an end date for their scheme's PIP retrospectively (see paragraph 5).
- If schemes which were in existence on A-Day do not nominate a new end date, their PIP will automatically end on or around 6 April (see sections 4 and 5).
- In defined contribution schemes, members may determine their PIP by nominating an end date. Where nominations are made by both the trustees and a member, the legislation gives priority to the first nomination past the post.

SACKER & PARTNERS

Solicitors specialising in pensions law

Sacker & Partners LLP
29 Ludgate Hill London EC4M 7NX
Tel 020 7329 6699 Fax 020 7248 0552
enquiries@sackers.com
www.sackers.com

sackers extra

alert

Continued
PENSION INPUT PERIODS

3 WHAT IS THE PIP?

The PIP is the period used to assess annual increases in the value of members' benefits for the purpose of testing against the annual allowance. Increases are measured against the annual allowance for the tax year in which the PIP ends and, to the extent the annual allowance is exceeded, a 40% tax charge known as the "annual allowance charge" is payable by the member.

A person may have more than one pension arrangement within a registered pension scheme and the PIP can be different for each.

4 START OF THE PIP

When the PIP starts depends on the type of pension arrangement:

- in a defined benefit (DB) arrangement or a cash balance (CB) arrangement, it starts when benefits first start to accrue;
- in a defined contribution (DC) arrangement, it starts when the first contribution (member or employer) is paid; and
- in a hybrid arrangement, it starts whenever the earlier of the above applies.

Schemes which were in existence on 5 April 2006

For DC schemes, the first PIP began when the first contribution was made in respect of an individual after 5 April 2006. For DB and CB arrangements, it began on the first date after 5 April 2006 when rights accrued to the individual. Because accrual typically occurs evenly over the course of a year in both DB and CB arrangements, this means that accrual will have started in such schemes on 6 April 2006.

SACKER & PARTNERS

Solicitors specialising in pensions law

Sacker & Partners LLP
29 Ludgate Hill London EC4M 7NX
Tel 020 7329 6699 Fax 020 7248 0552
enquiries@sackers.com
www.sackers.com

sackers extra

alert

Continued
PENSION INPUT PERIODS

5 END OF THE PIP

The idea is to provide schemes (and, in the case of DC arrangements, members) with the flexibility to determine the most appropriate PIP for them.

The only provisos are that:

- there must be a PIP ending in every tax year;
- there cannot be more than one complete PIP in a single tax year; and
- it is not possible to extend the PIP beyond a year.

Unless it is changed, the first PIP will end on the anniversary of its start date. (Subsequent PIPs will then finish on the anniversary of the end of the first PIP[1].) A PIP may come to an end earlier than the anniversary if the trustees (or, in the case of a DC arrangement, the member) opt to end it sooner. Any earlier date is referred to as a "nominated date".

HM Revenue & Customs (HMRC) originally anticipated that PIP nominations would be made for a current or future date (i.e. not retrospectively). However, in a recent note to the Joint Working Group, HMRC specifically address the possibility of nominating a past date. In particular, HMRC "confirm that the legislation allows nominations to be made stating a date that has already passed" and also that "such a nominated date may be for a previous tax year". Their only caveat is that, as with the tax system generally, they "will keep the ability to nominate [PIPs] under review to ensure that there is no abuse of the rules".

This is good news for trustees of pre A-Day DB and CB arrangements who have not yet nominated the end of the PIP. Because of the way in which the various

[1] For example, a PIP which started on 6 April 2006 will end on 6 April 2007 (if no nomination is made). The second PIP will then commence on 7 April 2007 and finish on 6 April 2008.

SACKER & PARTNERS

Solicitors specialising in pensions law

Sacker & Partners LLP
29 Ludgate Hill London EC4M 7NX
Tel 020 7329 6699 Fax 020 7248 0552
enquiries@sackers.com
www.sackers.com

sackers extra

alert

Continued
PENSION INPUT PERIODS

constraints on nominating work in practice, if it were not possible to nominate retrospectively, such trustees would need to take action to nominate before 6 April 2007 to avoid the default PIP end date automatically becoming 6 April going forward.

6 HOW IS A NOMINATION MADE?

A nomination by the trustees (as the scheme administrator for tax purposes) is made by giving notice to the members. This could perhaps be conducted as a stand alone mailing to members. Alternatively, it may be possible to time the notification to coincide with a regular member communication.

Once the trustees have nominated their required date it would continue to subsist until any further nomination is made.

7 WHAT DO TRUSTEES NEED TO DO?

If they have not already done so, trustees should consider nominating a PIP in respect of their scheme. This need not be the same as the tax year and could, for example, fit in with the scheme year or the date when benefit statements are issued.

In respect of DC schemes, trustees should check whether any of the members have already nominated a PIP. If the trustees have been pipped to the post, a general nomination cannot be imposed on such individuals in respect of this year's PIP. However, if they wished, trustees could note the need for a nomination to be made in respect of the next PIP to bring any such individuals into line with the rest of the membership.

SACKER & PARTNERS

Solicitors specialising in pensions law

Sacker & Partners LLP
29 Ludgate Hill London EC4M 7NX
Tel 020 7329 6699 Fax 020 7248 0552
enquiries@sackers.com
www.sackers.com