



GUIDELINES ON PENSION CONTRIBUTIONS TO IPS PENSION ARRANGEMENTS

<u>CONTENTS</u>	<u>Page</u>
Introduction	2
High Income Individuals	2
Maximum Pension Contributions – those who are not high income individuals	3
Maximum Pension Contributions – high income individuals	5
Summary Table	7
Refund Of Excess Contributions	9
Anti Avoidance	9
IPS' Role	9
Frequency	9
Concurrency	10
Contracting-Out	10
Pension Input Periods	10
Tax Free Cash Recycling	11
Payment of Pension Contributions On Behalf Of Another	11
Spreading Of Tax Relief – Company Contributions	11
Residence	12
Enhanced Protection	12
In-Specie Contributions	12
Source Of Wealth	14
New Rules 2011/12 Onwards	14
Summary	14

INTRODUCTION

IPS pension arrangements are able to receive pension contributions from members, their employers and third parties. Contributions are initially paid to their cash account and from there can be invested into any permitted asset.

Pension contributions are classified as all pension savings that receive UK tax relief paid to all pension arrangements for an individual. This includes contributions paid by individuals, on their behalf, or by their employer and accrual under defined benefit schemes (also called final salary schemes). This guideline does not cover final salary schemes.

Contributions benefit from tax relief for the contributor, whether individual or company, which provides a significant tax saving. Contributions can be paid until an individual's 75th birthday.

The rules for the maximum amount payable and level of tax relief can be complex in some situations. This guideline explains these, and the other regulations surrounding pension contributions and the methods for obtaining tax relief.

HIGH INCOME INDIVIDUALS

The Finance Act and then Pre-Budget Report 2009 introduced new rules for tax relief on pension contributions. This affects "high income individuals" defined as those whose "relevant income" is £130,000 or more (between 22nd April 2009 and 8th December 2009 this was £150,000).

When calculating the maximum contribution payable and tax relief thereon, the first step is therefore to determine whether someone is a high income individual.

Total "relevant income" is calculated on a tax year basis (to 5th April each year), and applies for the year of paying the pension contribution **and the previous two tax years**. The calculation is as follows:

a) Add together:

1. Total taxable income as calculated via an individual's self-assessment tax return. This is:
 - income from employment (P60 & P11D earnings)
 - income from self-employment/partnerships
 - pension income
 - rental income from owning property
 - interest from cash deposits
 - dividend income from share ownership
 - income received from a trust
2. Any new or increased post-December 9th 2009 employer's pension contributions being made under salary sacrifice or a net pay arrangement to the individual or a dependant or connected party (e.g. family member), including to overseas pension arrangements where UK corporation tax relief is granted – see below regarding existing arrangements as at 9th December 2009.

b) Deduct:

1. Self employment reliefs (for example loss relief including carry-forward & post cessation relief,

plant & machinery & industrial buildings allowances – in accordance with Section 24 of the Income Tax Act 2007).

2. Any charitable donations that qualify for gift aid (the gross amount).

3. Any “relevant” pension contributions (see below) subject to a maximum of £20,000.

The result equals the individual’s “relevant income” for the tax year. If this is £130,000 or more for the current year or either of the previous two years then the individual is a High Income Individual.

A “relevant” pension contribution is a pension contribution paid by an individual on which they qualify for UK tax relief.

This means that an individual can pay a pension contribution of up to £20,000 which is deducted from their total income to determine whether they are a high income individual. They could therefore receive income for a year of £149,999 and pay a pension contribution of £20,000 which reduces their income to £129,999, meaning they do not qualify as a high income individual.

The total contributions payable on which tax relief is granted can now be looked at. This is divided between those who are and those who are not high income individuals.

MAXIMUM PENSION CONTRIBUTIONS FOR THOSE WHO ARE NOT HIGH INCOME INDIVIDUALS

Contributions can be paid by individuals or their employers. There are different maximum amounts payable and methods of obtaining tax relief for each. **In many cases people receive both types and the rules which apply are therefore a combination of the two. The overall maximum figures mentioned therefore apply to both types combined.**

CONTRIBUTIONS PAID BY INDIVIDUALS

a) Maximum Contributions

A personal contribution is payable by a sole trader, partner or an individual employee out of taxed income.

The maximum *tax relievable* personal contribution is limited to 100% of earnings per pension input period (normally the tax year). For example, if someone earns £100,000 a year they can pay a maximum gross contribution of £100,000. If they pay more than this, they will not benefit from tax relief on the excess.

For payment of pension contributions, earnings consist of salary, bonuses and taxable P11D benefits (not other sources of income as in the calculation of a high income individual). IPS is not required to verify earnings, so it is the individual’s responsibility to ensure limits are not exceeded.

For someone with earnings of less than £3,600, a total pension contribution of £3,600 p.a. can still be paid.

b) Tax relief

IPS operates two types of pension arrangement:

SIPPs: are personal pensions and operate “relief at source”. This means that, when paying a personal contribution, only 80% of the total amount is paid to the SIPP and IPS then reclaims the basic rate tax relief from HM Revenue & Customs. For example, if an individual wishes to pay a contribution of £100, they pay £80 to the SIPP and IPS reclaims £20 which is deposited in the SIPP bank account. It can take six to nine weeks for the tax refund to arrive, which must be remembered when paying contributions to fund an investment with a specific timescale.

If an individual is a higher rate taxpayer (but not a high income individual), a further 20% tax relief can be claimed on personal contributions through their self assessment tax return, which is submitted after the end of the tax year. This means there can be a considerable delay between the date of paying the contribution and benefiting from the higher rate tax relief.

If contributions are overpaid, IPS can make a refund up to five subsequent tax years later. An additional fee is charged for this.

It is important therefore to ensure contributions are not overpaid.

SSAs: These are occupational pension schemes designed to receive pension contributions from companies. If an individual pays a personal contribution to a SSAS they will need to claim all their tax relief via their self-assessment tax return after the end of the tax year.

CONTRIBUTIONS PAID BY COMPANIES

a) Maximum Contributions

There is an overriding limit to the annual amount of *tax relieviable* pension contribution which can be paid for each individual. This is known as “the Annual Allowance” and is set by the Treasury as follows:

- 2009/10 £245,000 per member
- 2010/11 £255,000 per member

For subsequent years the Treasury has said the Annual Allowance will stay at £255,000 until 2015/16.

A company can pay up to the Annual Allowance for someone who is not a high income individual, without reference to their earnings (however, please see below for whether this will receive tax relief).

It is also permitted to pay a higher amount in the year of vesting retirement benefits in order to top up a member’s fund to the “Lifetime Allowance” (the maximum permitted tax exempt pension fund that can accrue for an individual at the point of their retirement), provided the member draws benefits from their whole fund in the same tax year as the contribution is paid.

If contributions in a year exceed the Annual Allowance then the Annual Allowance Charge will apply. This is a tax charge on the individual member of 40% on the excess.

b) Tax Relief

Company contributions (i.e. Limited companies and Public Limited Companies) receive Corporation Tax relief through the company’s accounting procedures, and the gross amount of the contribution

is paid by the company to the pension scheme. Tax relief is granted in the accounting period when the contribution is actually paid, not accounted for (except in instances of spreading relief – see below). This means tax relief for company pension contributions is granted in the same way, whether they are paid to a SIPP or SSAS.

For Corporation Tax relief to be granted, all company contributions must be deemed by the company's Inspector of Taxes to be incurred "wholly and exclusively for the purposes of the trade of the company" (i.e. to be part of the normal business expense of employing staff, rather than for a non-business reason), and to serve the purposes of the trade of the company. If a non-business purpose is identified for making a contribution, it will be disallowed for tax relief.

Guidance on how this is determined has been issued by HM Revenue & Customs and is contained in the Business Income Manual (Section BIM46000 onwards). The employer's local Inspector of Taxes makes an objective judgment over whether a contribution is allowable.

The Criteria set out in the Business Income Manual for deciding whether a contribution passes the wholly & exclusively test are:

- Was the contribution made for the purposes of the company's trade?
- What were the company's intentions when making the contribution?
- Serving the purposes of trade does not mean to benefit the company's tax position.
- The provision of a private benefit for the company's directors should only be incidental to the real reason for paying the contribution, which is to serve the purposes of the trade of the company.

The existence of the Annual Allowance, and the Finance Act 2009 amendments to tax relief on pension contributions for high income individuals are likely to reduce the number of cases where the wholly and exclusively test becomes an issue. If however, an individual is unsure please contact IPS for further guidance.

If there is any doubt over the ability to obtain Corporation Tax relief on a company contribution, the company should consult further with its accountant.

IPS can accept any contribution up to the Annual Allowance for each member each year (or a higher amount in the year of retirement), and is not involved in the process of obtaining tax relief.

MAXIMUM PENSION CONTRIBUTIONS FOR HIGH INCOME INDIVIDUALS

The maximum contributions for high income individuals are the same as for non-high income individuals outlined above although the Annual Allowance, as explained above, also applies for contributions paid by individuals (i.e. the maximum is 100% of earnings up to the Annual Allowance). If contributions in a year exceed the Annual Allowance then the Annual Allowance Charge will apply. This is a tax charge on the individual member. Where the total contributions for the individual exceed the annual allowance, a tax charge of 40% is chargeable on the excess.

It is also permitted to pay a higher amount in the year of vesting benefits in order to top up an individual's fund to the "Lifetime Allowance" (the maximum permitted tax exempt pension fund that can accrue for an individual at the point of their retirement), provided that individual draws benefits from the whole fund in the same tax year as the contribution is paid.

The difference is that the tax relief granted on the contributions is set at a different

level. A new principle called the “Special Annual Allowance” applies.

- Full tax relief as described above is only allowed on a total of £20,000 (combined personal and company) contributions for each tax year (except where existing ongoing contributions exceeded this – see below). This is the Special Annual Allowance.
- For any amount paid in excess of £20,000, the Special Annual Allowance Tax Charge of 20% applies.
- For personal contributions it is not really a tax charge, but a reduced level of tax relief. The additional 20% higher rate tax relief can only be claimed via self assessment on £20,000 (i.e. £4,000), and IPS will claim 20% basic rate tax relief on the total contributions in the usual way.
- For company contributions the employer will claim corporation tax relief in the usual way (provided the contribution passes the “wholly and exclusively” test), **but an individual will be subject to a 20% tax charge**. This is disclosed via self-assessment after the end of the tax year and a tax demand will then be issued.
- There are two exceptions to the Special Annual Allowance rule to allow for cases where contributions have been paid in previous years which are continuing.

1. Regular Pension Savings - Protected Pension Inputs

- These are regular contributions which were already in payment before the 22nd April 2009 and do not increase after that date except by a pre-agreed contractual arrangement (e.g. an individual’s contract of employment entitles them to pension contributions at a fixed percentage of earnings, and their earnings increase to take the annual contribution level above £20,000). Regular contributions are defined as being paid quarterly or more frequently. Salary sacrifice and net pay arrangements are included in this category.
- Where protected pension inputs exist, these can continue to receive full tax relief at their existing level.
- Any non-contractual increase however is subject to the Special Annual Allowance Tax charge of 20%.
- A pension scheme can be transferred to another arrangement and the regular contributions maintained. These will continue to qualify as Protected Pension Inputs as long as the following conditions apply:
 1. Regular contributions must continue to be made to the new arrangement at least quarterly.
 2. Contributions to the new arrangement must commence no later than three months after contributions cease being paid to the old arrangement.
 3. The transfer can only be made to one pension arrangement and the high earner cannot start another new arrangement or restart the old one.
 4. The new arrangement must not be materially different to the old arrangement in the way retirement benefits are calculated under its rules.
 5. If regular contributions are being paid to an occupational scheme, then for them to be redirected to a personal plan and still qualify as protected pension inputs, the personal plan has to be established as part of a reorganisation of the company's pension arrangements. It therefore needs to be a formalised arrangement in the records of the company and all members of the occupational scheme need to be treated the same.

2. Irregular Pension Savings – Increased Special Annual Allowance

- This is designed to benefit those who do not pay regular pension contributions because of the nature of their employment (e.g. the self-employed, company directors and those who receive a significant portion of their income as an annual bonus).
- The average of all gross pension contributions paid over the three tax years 2006/07, 2007/08 and 2008/09 is taken.
- Where this is between £20,000 and £30,000, the Special Annual Allowance is increased to the average, and full tax relief can continue to be granted on this level. Any higher amount paid will be subject to the special annual allowance tax charge of 20%.
- Where the average exceeds £30,000, the Special Annual Allowance is increased to £30,000 and full tax relief can continue to be granted on this level. Any higher amount paid above £30,000 will be subject to the special annual allowance tax charge of 20%.

SUMMARY TABLE

The tax relief rules on pension contributions can be summarised in the following table:

INCOME	MAXIMUM GROSS PENSION CONTRIBUTIONS (either personal or employer maximum not both)		TAX RELIEF (either personal or employer relief not both)	
	PERSONAL	EMPLOYER	PERSONAL	EMPLOYER
TOTAL "RELEVANT" INCOME LESS THAN £130,000				
"earned" income £0 - £3,600	Up to £3,600	Up to Annual Allowance (provided passes wholly & exclusively for the purposes of trade)	20%	<ul style="list-style-type: none"> • Full corporation tax relief • No personal tax charge on member
£3,601 – higher rate tax threshold (£37,400 for 2009/10)	100% of earned income up to 40% tax threshold	Up to Annual Allowance (provided passes wholly & exclusively for the purposes of trade)	20%	<ul style="list-style-type: none"> • Full corporation tax relief • No personal tax charge on member
Higher rate tax threshold - £129,999	100% of earned income up to £129,999 (plus £20,000 to reduce income below £130k)	Up to Annual Allowance (provided passes wholly & exclusively for the purposes of trade) (plus personal £20,000 to reduce income below £130k)	40%	<ul style="list-style-type: none"> • Full corporation tax relief • No personal tax charge on member
TOTAL "RELEVANT" INCOME £130,000 OR				

MORE (includes previous two tax years)				
No protected pension input	up to £20,000	up to £20,000	40%	<ul style="list-style-type: none"> • Full corporation tax relief • No personal tax charge on member
	£20,001 – 100% of earnings, subject to the Annual Allowance	£20,001 up to Annual Allowance (provided passes wholly & exclusively for the purposes of trade)	20%	<ul style="list-style-type: none"> • Full corporation tax relief • 20% personal tax charge on member
Protected pension input – regular savings (over £20,000)	100% of protected pension input	100% of protected pension input (provided passes wholly & exclusively for the purposes of trade)	40%	<ul style="list-style-type: none"> • Full corporation tax relief • No personal tax charge on member
	Protected pension input limit - 100% of earnings subject to the Annual Allowance	Protected pension input limit – Annual Allowance (provided passes wholly & exclusively for the purposes of trade)	20%	<ul style="list-style-type: none"> • Full corporation tax relief • 20% personal tax charge on member
Protected pension input – irregular pension savings (between £20,000 & £30,000)	100% of protected pension input (between £20 & 30k)	100% of protected pension input (between £20 & £30k) (provided passes wholly & exclusively for the purposes of trade)	40%	<ul style="list-style-type: none"> • Full corporation tax relief • No personal tax charge on member
	Protected pension input limit – 100% of earnings subject to the Annual Allowance	Protected pension input limit – Annual Allowance (provided passes wholly & exclusively for the purposes of trade)	20%	<ul style="list-style-type: none"> • Full corporation tax relief • 20% personal tax charge on member
Protected pension input – irregular pension savings (over	100% of £30,000 protected pension input	100% of £30,000 protected pension input (provided passes wholly & exclusively for the	40%	<ul style="list-style-type: none"> • Full corporation tax relief • No personal tax charge on

£30,000)		purposes of trade)		member
	£30,001 to 100% of earnings subject to the Annual Allowance	£30,001 – Annual Allowance (provided passes wholly & exclusively for the purposes of trade)	20%	<ul style="list-style-type: none"> • Full corporation tax relief • 20% personal tax charge on member

REFUNDS OF EXCESS CONTRIBUTIONS

Where high income individuals pay pension contributions that will result in restricted tax relief, they can have these refunded less a 40% tax charge.

- This can only be done after the end of the tax year of payment.
- This can only be done for personal contributions, **not** employer contributions.
- IPS will make an additional charge for arranging refunds of pension contributions.

ANTI AVOIDANCE LEGISLATION

HM Revenue & Customs have stated that arrangements made to avoid these new regulations will be caught by the anti-avoidance legislation.

IPS'S ROLE

Under the new regulations, IPS cannot and is not expected to police these tax rules. We will continue to receive pension contributions in good faith on the basis that overpayments will result in reduced tax relief being collected through self assessment.

There are a number of other features regarding pension contributions which should be noted.

FREQUENCY

Unlike many pension schemes, there is no commitment to pay regular contributions to the pension schemes operated by IPS. If the individual's circumstances change or they can no longer contribute, there are no penalties levied by IPS. In fact, the fund is preserved, tax free status remains and, because the IPS pension arrangements are so flexible, contributions can re-start when suitable, or the fund can be transferred to another Provider without penalty.

CONCURRENCY

It is permitted for an individual to be a member of more than one pension scheme, and for contributions to be paid to these at the same time. An individual or company can therefore pay contributions to two or more pension arrangements for the same person at the same time, subject to the tax relief rules and annual allowance explained above.

CONTRACTING OUT

The IPS SIPP (**but not the IPS SSAS**) allows receipt of “contracted-out” benefits. This is the system whereby employed individuals (not the self-employed) opt to replace their entitlement to the State Second Pension (S2P) – formerly known as SERPS, with accrual of funds under their SIPP. The objective is to generate a fund which will at least replace the level of benefits given up under S2P. This is done by completion of the relevant HM Revenue & Customs election so that a proportion of their National Insurance contributions are paid to their SIPP and can be invested with their other funds. The level of rebates is based on a complex system of formulae. The fund accumulated by these rebates is known as Protected Rights.

The HMRC election to contract-out is CA1542. On receipt of this, IPS must hold the form for the statutory 30 day cooling-off period before sending it to HMRC. Contracting out is effective from the beginning of the tax year. If the form is received by HMRC by the 17th May, contracting-out can be backdated to the start of the previous year.

National insurance rebates are paid to the SIPP once a year (unless the individual has more than one source of employment) after the individual’s employer has submitted their P14 end of year summary, and this has been processed by HMRC. The rebates include an element of tax relief. The payment of money purchase contracted-out rebates does not count towards the Annual Allowance, Special Annual Allowance or Increased Special Annual Allowance.

To cease contracting-out, election form CA1543 must be completed. This will be effective from the end of the tax year. Again there is a 30 day cooling-off period.

A protected rights fund can be transferred from one pension arrangement to another, provided it is permitted to hold protected rights. The IPS SIPP can accept these transfers.

Contracting Out is not beneficial for all clients and appropriate advice should be sought on this from a suitably qualified adviser.

Please note that the IPS SSAS as an occupational pension scheme cannot accept protected rights.

PENSION INPUT PERIODS

When assessing contributions against the Special Annual Allowance introduced on the 22nd April 2009, the tax year to 5th April is always used. However, when assessing contributions against the normal Annual Allowance, the scheme member can select a different date for their Pension Input Period to end. The tax year in which the Pension Input Period ends is the year against which the contributions paid in that period are tested against the Annual Allowance. This can enable a one-off opportunity to pay contributions above the Annual Allowance in one year.

Example:

- An individual’s taxable earnings are £500,000 in the tax year to 5th April 2010.
- They pay a gross contribution of £245,000 on the 1st March 2010.
- They opt to close their pension input period on the 5th March 2010.

- The £245,000 is assessed against the Annual Allowance for the year 5th April 2010.
- They then pay a gross contribution of £255,000 on the 10th March 2010.
- This is assessed against the Annual Allowance for the tax year ending 5th April 2011.
- Because earnings for the tax year ending 5th April 2010 are £500,000, the contributions actually paid in the year do not exceed 100% of earnings so tax relief is granted on the full amount.
- Assuming no protected pension inputs, as the individual is a “high earner” the tax relief actually granted is 40% on £20,000 and 20% on the balance of £480,000 (£104,000 in total).

To nominate a pension input period other than the 5th April, we will require a member’s letter of instruction. Our records will then be updated accordingly.

TAX FREE CASH RECYCLING

Contributions paid from tax free lump sums received on commencing retirement benefits can trigger a tax charge on the original tax free lump sum. Details on these rules are contained in the IPS Guideline on Retirement and Death Benefits.

PAYMENT OF PERSONAL CONTRIBUTIONS ON BEHALF OF ANOTHER

Regulations permit an individual to pay a personal pension contribution for another individual subject to their maximum. IPS pension arrangements permit such contributions. The member should receive any tax relief due on the contribution, not the person who made the contribution.

SPREADING OF TAX RELIEF – COMPANY CONTRIBUTIONS

A large company contribution will have its tax relief spread over more than one company financial year. This will occur where:

- It exceeds 210% of the contribution paid in the previous chargeable period, and
- The amount of the excess (defined as the amount paid over and above 110% of the contribution paid in the previous chargeable period) is £500,000 or more.

An employer contribution will not be spread to the extent that the increased contribution is attributable to the funding of:

- Cost of living rises for pensioner members
- Future service liability for new scheme entrants.

Where a spread is to apply to the excess, the following table is used:

Excess	Spread
£500,000 - £999,999	2 accounting periods
£1,000,000 - £1,999,999	3 accounting periods
£2,000,000 or more	4 accounting periods

For example:

Last year a company made an annual contribution of £600,000 to its employees' SPPs. This year it decides to boost the retirement benefits of three directors and pays total pension contributions of £1,900,000. The calculation for the spreading of tax relief is:

- Last year's contribution $£600,000 \times 210\% = £1,260,000$
- Therefore this year's contribution exceeds 210% of last year's
- Excess over 110% of last year: $£1,900,000 - (£600,000 \times 110\%) = £1,240,000$
- Therefore the excess is greater than £500,000
- As both criteria apply, tax relief will be spread
- The excess falls within the band £1,000,000 - £1,999,999 so spreading is over 3 accounting periods
- The amount of relief for each accounting period is: $£1,240,000 / 3 = 413,333$
- In the current year, tax relief is therefore granted on £1,073,333 (110% of last year - £660,000 plus this year's portion of the excess £413,333)

Different rules apply where a spread of relief coincides with business cessation.

RESIDENCE

To become a member of a UK pension arrangement, an individual must qualify as a "Relevant UK Individual", which broadly means they are resident in the UK at the time. If they then become non-resident by moving abroad, they can pay personal contributions to a UK pension arrangement for a further five tax years at a maximum of £3,600 p.a. Only IPS SIPP arrangements can accept such contributions.

In the case of employer contributions where an employee is resident abroad as part of their employment, it may be possible for their company to obtain tax relief for contributions to a IPS pension arrangement on their behalf, but this is a complex area and separate advice should be sought.

ENHANCED PROTECTION

Contributions must not be paid to a pension arrangement for an individual with Enhanced Protection (where they are able to accrue funds in excess of the Lifetime Allowance) or the protection will automatically be lost. IPS accepts no liability where the payment of a contribution results in the loss of an individual's enhanced protection.

IN-SPECIE CONTRIBUTIONS

This is where, rather than making a cash payment to a pension scheme, an asset such as property or shares is paid across instead, by transferring its ownership to the pension scheme.

HM Revenue & Customs have provided guidance on how this should be carried out, which will be subject to HMRC audit:

1. The specific monetary amount of the contribution (net or gross) must be decided on at outset and IPS notified accordingly. It is not permitted to simply state “the value of these shares....”
2. IPS cannot accept the value of an asset before the monetary amount of the contribution has been notified. We cannot receive or approve specific investment details although we can give generic approval for the type of asset being transferred.
3. Once the amount of the contribution has been notified to IPS, it creates a legally binding debt that the pension scheme is required to collect. IPS therefore uses an in-specie contribution notification and declaration which must be completed at outset.
4. The asset(s) to be transferred to the pension scheme must be valued at their open market value, and IPS must receive a copy of the valuation. For property or unquoted equity, this involves an independent valuation from a qualified valuer. For quoted assets, the value is the quoted value on the day the assets have been transferred.
5. The asset must then be re-registered into the names of the pension scheme Trustees. In the case of property this will involve a solicitor, and for shares a stock transfer form will normally need to be completed. If a stock transfer form is used, the date on the form will be treated as the date the contribution is “paid” as it represents the date the contract to make the contribution is fulfilled.
6. If the asset is a property or unquoted shares, IPS’s usual procedure for these investments must be followed.
7. IPS will require a copy of the dated property transfer, share certificate or contract note as evidence that the re-registration is complete.
8. It is our understanding that the transfer of an asset to a pension scheme as an in-specie contribution is subject to stamp duty (this is because although the transfer is for nil consideration, it is a transfer of value), and capital gains tax may be payable by the transferor – i.e. the company or individual making the contribution. Stamp duty payable where a stock transfer form is involved will be calculated on the value of the asset on the date on the stock transfer form. If these forms are not already dated when received, IPS will date them when they arrive at our offices within our normal timescales and will not take account of market value fluctuations.
9. An in-specie contribution is not treated as finalised until the date the transfer of the asset is complete (e.g. the trade date for shares or completion date for property).
10. Tax relief cannot be claimed until after this process has been completed.
11. An in-specie contribution can therefore result in an under or overpayment when the asset transferred is finally valued.
12. Under payments must be topped-up by a cash payment. If this is paid after a tax year end, the top-up is treated as a second contribution in the next tax year.
13. Over payments allow the following options:
 - The excess assets transferred could be transferred back (e.g. share re-registration).
 - The pension scheme could purchase the extra assets from the member by making a cash payment – no tax relief is granted on the excess.
 - The purchase of assets could be treated as made by an additional contribution by the member which does not require the asset to be transferred back to the member, but must be documented clearly.

Tax relief is granted on an in-specie contribution in the usual way, depending on whether it is a company or personal contribution.

Where an in-specie contribution of property or unquoted shares is paid, our standard fees apply for investment into these types of asset. Where a different class of asset is transferred, IPS reserves the right to make a time cost charge depending on the amount of work involved.

Where an in-specie contribution is likely to cause problems, an alternative is to make a cash contribution by borrowing funds to pay to the pension scheme, and the asset can then be purchased from the member at open market value.

SOURCE OF WEALTH

In the case of SIPPs, the Financial Services authority has rules requiring evidence to be provided of the source of wealth from which contributions are to be paid. If a SIPP is introduced by an Independent Financial Adviser, it is their responsibility to check this, and to tick the relevant box on the application form. Where a SIPP is being established directly by a member of the public who are to pay contributions, they must provide evidence of source of wealth such as a copy of their bank statement or P60 as evidence of earnings, or proceeds of an investment which has recently been realised.

NEW RULES FOR 2011/12 ONWARDS

A new set of regulations for tax relief on pension contributions will be introduced from the 6th April 2011. These regulations will restrict tax relief on pension contributions for people with total income of £150,000 or more (including pension contributions paid on their behalf). Tax relief will be tapered for income between £150,000 and £180,000 so that at £180,000 it is restricted to basic rate tax relief (currently 20%). The calculation of income will involve gross income including all pension contributions (except where gross income minus pension contributions is less than £130,000, in which case the individual will not be classified as a high earner).

SUMMARY

Payment of pension contributions attracts significant tax relief on what can amount to substantial sums of money, thereby allowing retirement savings to accumulate. IPS does not advise on the level of contributions that should be paid and, if advice on this matter is required, this should be sought from an accountant or financial adviser.

These guidelines are based on IPS's current understanding of HM Revenue & Customs regulations which may be subject to change.

March 2010