AJBell Investcentre

SIPP | ISA | GIA

Maximising contributions prior to taking benefits

Points covered: Carry forward; alignment of pension input periods to tax year; triggering the money purchase annual allowance (MPAA)

Mr Cooper is 67 and will be retiring shortly from the business he established twenty-five years earlier.

His shares have been bought out by the current management team and as part of the deal the company will make one final employer contribution to Mr Cooper's SIPP before he leaves.

Mr Cooper has held his SIPP for a number of years but has made no personal contributions.

His company has made regular employer contributions over the last five years of £2,000 per month, paid on the first of each month, with an additional one-off contribution of £40,000 in 2013/14. The SIPP pension input period (PIP) was previously aligned to the company year, which runs from 1 July – 30 June.

Total contributions for each PIP are therefore as follows:

1 July 2010 – 30 June 2011 (2011/12 tax year)	£24,000
1 July 2011 – 30 June 2012 (2012/13 tax year)	£24,000
1 July 2012 – 30 June 2013 (2013/14 tax year)	£64,000
1 July 2013 – 30 June 2014 (2014/15 tax year)	£24,000
1 July 2014 – 30 June 2015 (2015/16 tax year)	£24,000
1 July 2015 – 08 July 2015* (2015/16 tax year)	£2,000

*This PIP was shortened when the Chancellor announced the alignment of PIPs with tax years in the Emergency Budget on 8 July 2015. All PIPs that were open on that day were closed and a new PIP opened on 9 July 2015 that will close on 5 April 2016. From 6 April 2016 all PIPs will be aligned with tax years.

The maximum contribution the company can make in the period 9 July 2015 – 5 April 2016 will be £82,000 which is calculated as follows:

- **£40,000 carry forward from pre-alignment period (6 April 2015 – 8 July 2015)**
  - The annual allowance for 2015/16 is £80,000 for all PIPs ending in the "pre-alignment period", for Mr Cooper this input amount is £26,000. The rules allow you to carry forward unused annual allowance to the "post-alignment period" (9 July 2015 – 5 April 2016) up to a maximum of £40,000. Mr Cooper has £54,000 unused allowance, so can carry forward the maximum £40,000.
- **£26,000 carry forward from 2012/13**
  - In 2012/13 the annual allowance was £50,000
- **Nil from 2013/14**
  - In 2013/14 the contribution over the annual allowance would have been made using carry forward from 2011/12 (or 2010/11 if he had been a member of a pension scheme and not used his full annual allowance).
- **£16,000 carry forward from 2014/15**
  - In 2014/15 the annual allowance was £40,000.

Contributions totalling £82,000 can therefore be made in the period 9 July 2015- 5 April 2016.

Once Mr Cooper retires he uses his SIPP to provide a regular income. He still does a few days of consultancy work on a self-employed basis for the company as required. If he wants to use some of his earnings from this work to make further contributions to his SIPP he can do so, up to the money purchase annual allowance (MPAA) of £10,000 per year.

Important information

This information is based on our current understanding of the pension changes. This is provided for information only, we do not provide advice.

Please note that the value of investments, and any income from them, can go down as well as up, and you may not get back your original investment. Tax rules can change in the future and the tax treatment depends on your personal circumstances. We do not offer advice about the options available, or the suitability of our products and services. Taking income from your SIPP instead of buying an annuity can be complex. You need to consider the investment returns that you may be able to achieve and the level of income that you wish to take.

AJBIC/DB/MCTB/20150820