Pension input periods

July 2011

There is still time to make a retrospective nomination of when pension input periods (PIPs) end. But only until Parliament passes the Finance Bill, probably later this month.

A PIP is the period over which pension saving is tested against the annual allowance (now £50,000). The detailed rules about PIPs are a minority sport of interest only to members who save, or have saved, the annual maximum or close to it. But for them, they can be very important.

If you think you need to know more, please read on.

This alert updates an article we circulated in April.

Default position

Whether a member has to pay the annual allowance charge for exceeding the limit is tested over PIPs that end in a particular tax year. So the PIP end date can be critical.

If no other date has been nominated, the default position for an active member of a DB or cash balance scheme who was a member on A Day (6 April 2006) is that PIPs to date have ended on 6 April each year i.e. just in the new tax year.

This will remain the default pattern for such members in future too, HMRC having now dropped its proposal to switch the default end date for PIPs from 2011/12 onwards to 5 April.

A person who was a member of a DC scheme on A Day is in the same position except that the default end date is likely to be in the middle of April.

Ending PIPs on 6 April (or mid April) is counter-intuitive. Most people would expect the measurement period for pension to be the tax year. On the whole, that would be a more satisfactory default position.

For a member who joined a scheme after A Day but before 6 April 2011, the default PIP end date will be the anniversary of the date they joined or, in a DC context, of the first contribution made for them.

Overriding the default position

Nominating for the past

The scheme administrator - normally the trustees - can override the default position by nominating a different PIP end date. In a DC scheme (bar cash balance), members can also nominate their own end date.

Some schemes are looking to make a retrospective nomination that will result in 5 April being the end date for all PIPs since A Day. This can avoid a member being subject to the new, lower annual allowance earlier than expected. In other cases, trustees are opting to align with their scheme year.

This is time-critical for interested schemes and members: retrospective nomination will no longer be possible once the Finance Bill receives Royal Assent.

Nomination needs careful thought. Where a member has saved to the maximum and/or has had spikes in saving close to the beginning or end of a tax year, changing the end date of their PIP could have very significant tax consequences for them.

In addition, the personal tax position of every member who might be affected could be quite different.

There are various other details to consider too. For example:

- PIPs operate at the level of individual members and individual "arrangements" under a scheme, not at the level of a whole scheme;
- a different end date can be nominated for different members and different years;
- exceptionally, a member might already have nominated a date and organised their pension saving accordingly;
- the annual allowance test requires an individual to aggregate all the PIPs that end in a tax year. Someone who is saving in more than one scheme might well have a variety of end dates for different PIPs. Changing an end date over their head could disrupt their plans;
- the position of members who joined after A Day needs to be considered separately.

For reasons like these, a blanket nomination for all active members, all arrangements under a scheme and all PIPs might not be appropriate.

Because the potential tax consequences are very significant, we recommend that trustees do not nominate a PIP end date without consulting those who are or might be affected and also the employer.

Nominating in future

Once the Finance Bill is law it will not be possible to nominate a PIP end date that is earlier than the date the nomination is made. As the Bill currently stands, it appears that the only way to align PIPs with the tax year and make the most of the annual allowance will be to nominate a PIP that is more or less two tax years long and rely on carry forward of unused allowance.

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Mechanics

At the procedural level, trustees nominate a date by giving notice to the individuals concerned and a member nominates by giving notice to the trustees.

As far as HMRC is concerned, there is no need for trustees to deliver a nomination to each individual member. It says a nomination will be valid if it is made available to the people concerned and gives the example of posting it on the scheme's website or the employer's. For a nomination by a member, HMRC says it expects the trustees to retain whatever communication a member sends them.

But, as we have said, we recommend trustees do more than this and consult before nominating.

Advice

We also recommend trustees take specific advice before nominating any PIP end date, whether before the Finance Bill is passed or in future.

In relation to nominations after Royal Assent, note that the Bill could still be altered before it becomes law.

More information

If you would like more information, please contact the person in our pensions team with whom you normally deal or Marcus Hellyer at **marcus.hellyer@burges-salmon.com**.

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