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Adviser factsheet

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Annual allowance – pension input amounts

Introduction

The annual allowance (AA) limits the amount of tax privileges available on pension savings made by or in respect of an individual under a registered pension scheme. As part of the AA test, the calculation of the pension input amount varies depending on the type of pension arrangement. This factsheet provides an introduction to the calculations.

Features

- Pension input amount (PIA) – money purchase arrangements that are not cash balance arrangements
- PIA – defined benefit arrangements
- PIA – cash balance arrangements
- PIA is nil

Where pension savings under an overseas pension scheme count towards the AA, the calculation of the PIA follows special rules and is not covered in this factsheet. Information on the calculation can be found at PTM113300. Therefore, what follows is applicable to members of registered pension schemes.

Pension input amount (PIA) – money purchase arrangements that are not cash balance arrangements

The PIA is the sum of the following paid during the pension input period:

- all relievable pension contributions paid by or on behalf of the individual under the arrangement, and
- contributions paid in respect of the individual under the arrangement by an employer of the individual.

Relievable pension contributions include the amount of any part of a contribution that does not attract tax relief e.g. the excess where the gross contributions exceed the member's relevant UK earnings for the tax year. Note that relievable pension contributions that are paid during the pension input period (PIP) and are subsequently returned to the individual by way of a refund of excess contributions lump sum made in a PIP ending in the tax year 2014-15, or a later tax year, are not included in the PIA.

The following are not classed as relievable pension contributions:

- paid after the individual has reached age 75
- contracting out rebates
- life assurance premiums under a non-protected non-group life policy (see PTM044100 for more detail).

PIA - defined benefit arrangements

For a defined benefit (DB) arrangement the PIA is a notional contribution based on the increase in benefits accrued over the pension input period (PIP). This is best illustrated using an example.

DB example

Calculate the pension accrued at the end of the previous PIP. Assume this is £12,500 p.a. and that the lump sum is available through pension commutation, and the annual increase in the consumer price index (CPI) to the September prior to the tax year was 3%.

Opening value = (£12,500 x 16) x 1.03 = £206,000

Note, if the scheme operates separate lump sum accrual, the calculation would be in accordance with the formula: (pension x 16 + lump sum) x CPI factor.

Calculate pension accrued at the end of PIP. Assume this is £15,000 p.a.

Closing value = £15,000 x 16 = £240,000

Closing value – Opening value = £240,000 – £206,000 = £34,000

Therefore, £34,000 is the PIA. Certain events can cause the closing value to be higher or lower than it would otherwise be (see PTM053301 for more detail).

Note that the PIA is never less than zero.

PIA - cash balance arrangements

A cash balance arrangement is a money purchase arrangement where the individual member has a predetermined fund at a particular date available to secure benefits. The fund is therefore not derived wholly from the contributions made by or on behalf of the member and because of this the PIA is a notional contribution based on the increase in the value of the member's promised pension pot (see PTM053400 for more detail).

PIA is nil

An individual who under either a defined benefit or cash balance arrangement is:

- a deferred member for the whole of the PIP, or
- a deferred member for part of the PIP and then a pensioner member for the remainder
- a deferred member from the beginning of the pension input period until:
  - there is a recognised transfer from the pension scheme of all the sums or assets held for the purposes of, or representing accrued rights under, the arrangement in connection with the individual, and
  - after the transfer, no rights accrue under the arrangement (from which rights have been transferred) to (or in respect of) the individual during any remaining part of the pension input period

and is treated as having no PIA for that arrangement if certain conditions are met (see PTM053910 for more detail).

Where an individual

- dies, or
- retires due to severe ill-health

the PIA is nil for the PIP that ends in the tax year where the individual dies or becomes entitled to benefits under certain conditions.

See PTM051200 for more detail.

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