

The Lifetime SIPP

Guide to paying in to your SIPP

Your Lifetime SIPP is a tax efficient investment to help you save for your future. Contributions can be made into your SIPP at any point and have the potential to receive tax relief.

How much tax relief you can receive on contributions and how you contribute can be confusing, this guide explains how to contribute and how tax relief is collected.

The Lifetime SIPP do not provide tax or investment advice.

Who can pay in to your SIPP?

Anyone! Typically, you and/or your employer will pay into your SIPP, but you can also receive money from a third party.

Contributions that you make will usually have come from taxed income. Where your employer is paying the money in directly from your salary, they will do so after having deducted income tax. You may see these referred to as 'net contributions' or having been made 'net of tax'.

Where you have confirmed that your contributions are eligible for tax relief, we will claim basic rate tax relief on your behalf. You may see this referred to as 'Relief at Source'. If you are a higher or additional rate tax payer you can claim higher rate tax relief via your annual tax return.

However, contributions paid for by your employer are not taxed and are paid 'gross' into your SIPP. They do not attract any tax relief.

Contributions from a third party, that is a person, a company or other legal body other than you or your employer, can be paid either net or gross of income tax. As with your own contributions 'net' payments may qualify for basic rate tax relief. We say 'may qualify' as the tax relief is based on your tax circumstances not those of the person paying the money to you.

Finally, two things to bear in mind about contributions:

1/ To receive tax relief on pension contributions you must be a 'relevant UK individual', that is a person under the age of 75 who:

has 'relevant UK earnings' chargeable to income tax or has (or is the spouse or civil partner of a person who has) earnings from overseas crown employment.

is resident in the UK, or was resident in the UK at some time during the last five tax years and was also resident in the UK when they joined the pension scheme.

2/ Once you start drawing on your pension the amount you can pay in is restricted. We will cover this in the next section.

How much can you contribute to your pension?

You can pay in as much as you like to your pension but there are three limits (or 'allowances') of which you need to be aware:

Annual Allowance - In any one tax year. This is the maximum you can pay into your pension in one year, from any source, and still receive tax relief on that sum.

You can pay in more than the annual allowance, however if you are not using 'carry forward' arrangements you will not benefit from tax relief on the amount over the annual allowance.

The annual allowance restricts the amount of tax-relieved pension saving an individual can make each year. For most individuals it is currently £40,000. It is possible to carry forward unused allowance from the previous three tax years to offset any excess in the current year.

The Finance Bill 2015 provides that from tax year 2016/17 the annual allowance for those earning above £150,000 is to be reduced on a tapering basis so that it reduces to £10,000 for those earning above £210,000. For every £2 of income above £150,000, an individual's annual allowance will reduce by £1.

Lifetime Allowance - This is a limit to the amount your pension can be worth without incurring a tax charge.

Unlike the annual allowance which dictates how much you can add to your pension and receive in tax relief, the Lifetime Allowance is the total value you can accumulate in pensions. That includes capital growth and income from your investments.

The LTA reduced from £1.25m to £1million on 6th April 2016. It is assessed at the point of taking pension benefits and exceeding the Lifetime Allowance (LTA) brings a tax charge of 25% or 55%, depending upon the exact circumstances. This can be a quite complex subject and we recommend you seek professional tax advice if there is a chance you will exceed the LTA.

Money Purchase Annual Allowance - Once you start drawing on your pension, whether a regular monthly payment or ad hoc lump sums, your annual allowance is reduced to £10,000.

Exceeding the annual allowance or money purchase annual allowance means you will have to pay tax on the excess at your marginal (or highest) tax rate. See 'What happens if you exceed the annual allowance'.

How much qualifies for tax relief?

The total that can be paid in and qualify for tax relief cannot exceed the higher of £3,600 or 100% of your 'relevant UK earnings' in that tax year. We will explain 'net relevant earnings' in a moment but for now note that the total figure includes the tax relief you receive too (you may also be able to use earnings from previous tax years – see the 'Using carry forward' section below).

As the table below shows you do not actually have to have any 'relevant earnings' to pay into your SIPP, but contributions higher than your relevant UK earnings will not receive tax relief.

Relevant Earnings	Max net contribution	Basic rate/tax relief claimed	Total Contribution
£0	£2,880	£720	£3,600
£20,000	£16,000	£4000	£20,000
£40,000	£32,000	£8000	£40,000

If you have other pensions in addition to your SIPP, do remember that the annual allowance applies to the total contributions to all of these pensions not just your SIPP.

A 'net' contribution of £80 equals a gross contribution of £100. At first glance this may seem odd given that basic rate tax relief is 20%.

Here is why the gross figure is 25% more than the 'net': if you want £100 to go into your SIPP (and that contribution is eligible for tax relief), the Government will contribute 20% of that £100 i.e. £20. So take that £20 from £100 and you pay in £80.

Of course, if you pay in £100 the Government top-up is now worth £25, so a total of £125 is contributed.

So what are 'relevant UK earnings?'

Confusingly, the term 'relevant UK earnings' does not include all your income, nor does it have to be just earned in the UK. It can be any of the following:

Employment income such as: pay, wages, bonus, overtime, or commission and other P11D benefits.

Income from self-employment or a partnership.

Redundancy payment above the £30,000 tax exempt threshold

Income from a UK and/or EEA furnished holiday lettings business.

Patent income, where the individual alone or jointly devised the invention.

Pension income, Capital Gains, rental income and investment income are not classed as 'earnings' and so are not included in the definition of 'relevant UK earnings'.

What happens if you exceed the 'annual allowance'?

If you exceed the annual allowance, or, where applicable, the 'money purchase annual allowance', there is a tax charge at your highest tax rate on the excess. Effectively this takes back the tax relief you have received.

Here's an example: your employer pays in £30,000 to your pension. You pay in £20,000 on which you receive the Government's basic rate tax relief payment of £6,000. So that's a total of £56,000.

The annual allowance is £40,000, giving an excess of £16,000 which is then taxed at your marginal rate.

Given that your SIPP with us may be only one of various pensions you hold and contribute to, we will not always know if you exceed the annual allowance. So you should keep track on all monies paid into pensions you hold and advise HMRC - this is done via your annual tax return. Where the total paid in to your SIPP exceeds the annual allowance we will write to you each year confirming the total credited and what you then need to do.

HMRC will notify you of the tax charge due and you may, if you wish, instruct us to pay some or all of your annual allowance excess tax charge from your SIPP. If this applies please contact us for further details.

Using 'carry forward' unused Annual Allowance from the 2015/2016 Tax Year

Carry forward unused allowance will be affected by the summer budget changes and the aligning of input periods. The amount available to be carried forward into the 2016/2017 tax year is the unused annual allowance of the Post Alignment tax year.

For example;

	Annual Allowance	Contribution Made
Pre Tax Alignment tax year	£80,000	£40,000
Post Alignment tax year	£40,000	£15,000

The amount that could be carried forward to 2016/2017 tax year is £25,000.

How is tax relief claimed?

We work with our scheme administrators to claim basic rate tax relief on your behalf.

Claims are made on a monthly basis. Contributions from the 6th of one month to the 5th of the next are submitted to HMRC by the end of the second month. HMRC then processes those claims and pay the money to our scheme administrators to credit to your SIPP Bank account. This usually takes up to 12 weeks in total. So, as an example, tax relief on contributions made between 6 April and 5 May will be available in your SIPP to invest by the end of June.

If you are a higher or additional rate tax payer, further tax relief can then be claimed via your annual tax return.

Paying in to your SIPP

Whichever way you choose to pay contributions into your SIPP, when you make this first monetary contribution we will need you to complete a contributions form. This includes your confirmation that you are entitled to receive tax relief. Thereafter, when you amend your payment or make an additional one, you will not need to do any more than pay it to your SIPP bank account. Contribution forms are available on our website.

The contribution form includes the option for you to make regular contributions, monthly, quarterly, bi annually or annually. We will collect these from your bank account via Direct Debit on the first working day of the month. Just complete the Direct Debit authority.

Your bank will typically need 10 working days to set-up the direct debit before we can collect your first payment, so please allow for this in your timings.

Your employer, or another person, can also arrange for their contributions to your SIPP to be collected by direct debit. The contributor will need to sign another direct debit authority.

When amending the amount you, or they, are paying by direct debit, we will need your new instruction 10 working days before the next payment is to be collected.

A couple of other things to bear in mind:

Employer contributions – our SIPP administrators will need to complete the necessary 'due diligence' checks on employers in order to comply with anti-money laundering regulations. This may delay collecting the first payment to your SIPP. Your employer may, as part of that check, need to provide details of any shareholders who own 25% or more of the company's shares.

Contributions from other people – anti-money laundering checks may also apply to third party contributions. We will contact the third party directly should this be the case. Third parties should understand that in making a contribution to your SIPP it cannot be returned to them.

A SIPP bank account is required by FCA regulations and is managed by our SIPP trustees. It provides a record of all monies paid into or drawn out of your SIPP. We will advise you of your SIPP bank account details when you open your SIPP. Money in that bank account is, like other cash savings, covered by the FSCS up to certain limits.

'In specie' contributions

Contributions into your SIPP can also be made by transferring existing investments you may hold. This is known as an 'in specie' contribution.

'In specie' contributions can be made by you, your employer or a third party but under HMRC regulations the investments cannot simply be added to your SIPP.

As well as completing a contribution form for the value being paid in, a separate 'in specie contribution form' is also required.

Since you will have to tell us the amount being contributed before the investments are actually transferred, there can be a difference in value between what you expected the investment to be worth on transfer and the value they have at the point the transfer is completed. That value could be higher or lower.

Where the value on transfer is higher than stated on your contribution form, a second contribution form should be provided to account for the difference.

Where the value is lower than stated on your contribution form, you can make a cash contribution to make up the difference, OR complete a new contribution form for the lower amount.

Any other questions?

If you have any questions about contributing to your SIPP, simply call 0117 316 9991 or email info@thelifetimesipp.com