

Annual allowance calculator

A guide to the data you will need to enter



The following is a list of data you'll need to work out how much may be contributed to your client's investment without exceeding the annual allowance. It is the data you will need in order to use our maximum contribution calculator.

The 'Definitions' section explains terms in **bold** and provides some additional information.

Data required in all cases

- ▶ **Pension input amount** for the current tax year.
- ▶ **Pension input amount** for each of the three previous tax years. Note that if there was annual allowance excess in one or more of those three previous tax years, you will also need the pension input amounts for each of the three tax years prior to that 'excess' year.

Additional data required if the tapered annual allowance will be a factor

This information will be needed for each tax year in which the tapered annual allowance may apply to the client. The tapered annual allowance rules take effect from the 2016/17 tax year and each tax year after.

- ▶ The individual's **net income** for the tax year.
- ▶ The amount of taxable lump sum death benefit(s) paid to the individual from a pension scheme in the tax year.
- ▶ The amount of employment income given up for the tax year under a **relevant salary sacrifice arrangement or relevant flexible remuneration arrangement**.

- ▶ The gross value of contributions paid in the tax year using **relief at source**.
- ▶ The value of employee contributions paid into an occupational pension scheme in the tax year via the **net pay arrangement***.
- ▶ The value of employer contributions paid in the tax year*.
- ▶ The value of member contributions paid in the tax year to overseas pension schemes with **transitional corresponding relief**.
- ▶ The amount of any relief given under section 193(4) Finance Act 2004 - **claim for excess relief under a net pay arrangement**.
- ▶ The amount of any relief given for the tax year under section 194(1) Finance Act 2004 - **relief on making a claim**.

* **Note:** If the pension is a defined benefit pension, you won't need to enter the net pay arrangement and employer contributions separately; all you will need is the defined benefit pension input amount.

HMRC guidance on the tapered annual allowance
www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057000

For financial advisers only

Definitions

Pension input amount

The pension input amount for a tax year in a money purchase pension is normally the aggregate of all contributions paid in that tax year.

In broad terms, the pension input amount for a tax year in a defined benefit pension is the difference between the 'opening value' and the 'closing value' for that tax year. These must be calculated (they are not the same as the pension entitlement at the start of the tax year and the pension entitlement at the end). HMRC guidance on the calculation of a defined benefit pension input amount is at www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm053301

Your client's pension scheme(s) will be able to tell you the pension input amounts for prior tax years. A 'pensions savings statement' provides the pension input amount for a tax year and the three tax years before it. Your client's pension scheme(s) may have already provided one of these to your client but if they haven't, your client may request one. If the request is made in writing the pension scheme is obliged to provide it.

It may be necessary to estimate the pension input amount for the current tax year.

HMRC guidance

www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm053000

Net income

This is the income found after steps 1 and 2 of section 23 Income Tax Act 2007.

In broad terms it is the individual's remaining taxable income after deducting any reliefs due under section 24 Income Tax Act 2007 but before any account is taken of personal allowances, the savings allowance or the dividend nil rate.

It is a feature of self-assessment, and an accountant will be able to help.

HMRC guidance

www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100#net-income

Relevant salary sacrifice/relevant flexible remuneration arrangement

A relevant salary sacrifice arrangement is where the employee gives up employment income in exchange for pension contributions by an employer, and the arrangement was made after 8 July 2015.

A relevant flexible remuneration arrangement is where the employee and their employer agree that employer pension contributions will be made rather than the individual receive some employment income, and the arrangement was made after 8 July 2015.

The employer will be able to confirm the nature of any such arrangement and the date on which it began.

HMRC guidance

<https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100#relevant-remuneration-arrangements>

Net pay arrangement

A net pay arrangement is where employee contributions to an occupational pension scheme are deducted from the employee's pay before income tax. It's called a net pay arrangement because it is the employee's pay net of these deductions that is subject to income tax.

HMRC guidance

www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm044230

Relief at source

Relief at source is where the individual pays 80% of the contribution amount, and the pension scheme adds the remaining 20%. Any further tax relief (where due) is claimed by the individual via self-assessment.

Your client's pension scheme(s) will be able to tell you the value of contributions made via this method.

HMRC guidance

www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm044220

Employer contributions

The employer might provide employer contributions as a matter of course, or as a result of a salary sacrifice/flexible remuneration arrangement, or both.

Why they are being made doesn't matter for the purposes of the value of employer contributions; you simply need the value of all employer contributions for the tax year.

Your client's pension scheme(s) will be able to tell you this.

Remember, if the pension is a defined benefit pension, you won't need to the net pay arrangement and employer contributions separately; all you will need is the defined benefit pension input amount.

Transitional corresponding relief

In broad terms, this is where an individual was a member of, and made tax-relievable contributions to, an overseas pension scheme in the 2005/06 tax year and through transitional corresponding relief may continue to contribute to that (or a replacement) scheme if relevant conditions are met.

This is perhaps unlikely to affect more than a handful of clients.

HMRC guidance

www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm111500

Claim for excess relief under a net pay arrangement/ relief on making a claim

'Excess relief under net pay' or 'relief on making a claim' may be claimed if employee contributions have exceeded the employee's employment income, or it was not possible for the employer to deduct the full amount of the contribution from the employee's income.

This is perhaps unlikely to affect more than a handful of clients.

The claim is generally made via self-assessment SA100 under the section 'Tax reliefs' by completing box 3 for claims for excess relief or boxes 2 or 3 for relief on making a claim, and so your client or their accountant should have access to the values where they apply.

This is perhaps unlikely to affect more than a handful of clients.

HMRC guidance

www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm111500

Further reading

HMRC annual allowance guidance

www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm050000

Technical solutions helpdesk articles

Carry forward of annual allowance

quilter.com/help-and-support/technical-insights/technical-insights-articles/carry-forward/

Tapered annual allowance and high earners

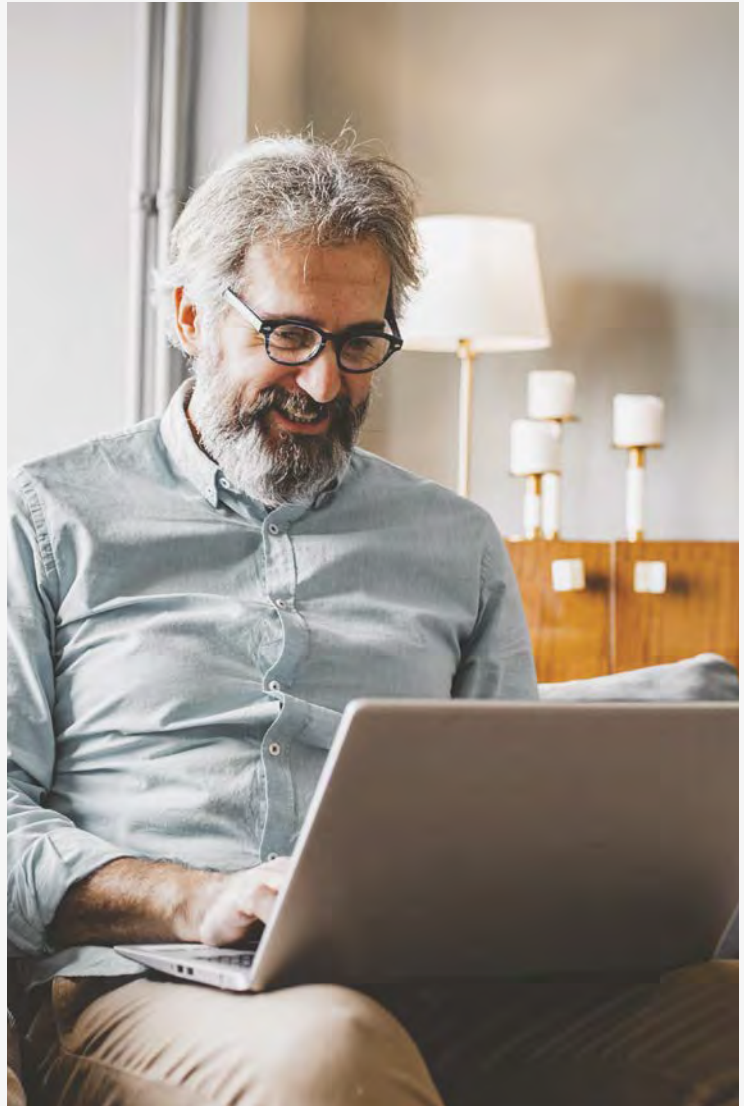
quilter.com/help-and-support/technical-insights/technical-insights-articles/tapered-annual-allowance/

Explaining how annual allowance and earning limits interact

quilter.com/help-and-support/technical-insights/technical-insights-articles/contributions-and-the-earnings-limit/

Tapered annual allowance – examples

quilter.com/help-and-support/technical-insights/technical-insights-articles/tapered-annual-allowance-examples/



Your clients' investment may fall or rise in value and they may not get back what they put in.

This document is based on Quilters interpretation of the law and HM Revenue and Customs practice as at November 2020. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

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Please be aware that calls and electronic communications may be recorded for monitoring, regulatory and training purposes and records are available for at least five years.

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Quilter Life & Pensions Limited is registered in England and Wales under number 4163431.

Registered Office at Senator House, 85 Queen Victoria Street, London, EC4V 4AB, United Kingdom. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services register number 207977. VAT number 386 1301 59.

QIP 21009/61/3409/July 2023