



Inland
Revenue

Personal Pension Schemes (including Stakeholder Pension Schemes)

A guide for members of tax approved schemes



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Chapter 1 - Introduction

Which types of pension scheme does this booklet cover?

This booklet contains information about personal pension schemes and stakeholder pension schemes.

Unless stated otherwise, all references to personal pension schemes **include** stakeholder pension schemes. For tax purposes (for example, tax relief, contributions, eligibility and benefits) they are the same as personal pensions.

Personal pension schemes commenced on 1 July 1988 and this booklet only covers such schemes. It does not cover retirement annuities, which were a type of private pension sold before that date.

This booklet does not cover employers' occupational pension schemes. They are subject to different Inland Revenue requirements. Guidance on this type of pension scheme is included in another booklet IR2 'Occupational pension schemes - A guide for members of tax approved schemes' (see Chapter 9 for details of how to get a copy).

However, if your employer's occupational pension scheme has been converted into an employer's personal pension scheme or stakeholder pension scheme, from the date of the change it will come under the rules in this booklet. If you are not sure whether the employer's scheme you are in is an occupational pension scheme or a personal pension scheme, you should ask your scheme administrator.

Why has this booklet been issued?

This booklet is intended to help current and potential members understand the rules that apply to tax approved personal pension schemes.

Major changes were made to the tax rules for personal pension schemes from 6 April 2001, as part of the Government's plans to introduce stakeholder pension schemes. The changes will make personal pensions more flexible and available to more people.

This booklet expands on the guidance in booklet IR 78 'Looking to the Future. Tax reliefs to help you save for retirement'.

Who is this booklet for?

This booklet is for people who want to know more about personal pension schemes, but do not have a working knowledge of the Inland Revenue's pension requirements. It explains the main tax reliefs and contribution limits, and answers the questions members most often ask.

The information in this booklet is based on the tax rules and limits in force on 6 April 2002.

This booklet does not address any Inheritance Tax aspects of pension benefits. If you have a query about Inheritance Tax and your pension, please contact Inland Revenue (Capital Taxes) in Edinburgh - their address and helpline telephone number are shown in Chapter 9.

This booklet was produced by Inland Revenue (Savings, Pensions, Share Schemes). If you think we have failed to cover an important area, please let us know by writing to our Customer Service Manager at the address shown in Chapter 9, so that we can consider it for a future edition.

Chapter 2 - What are personal pensions?

Personal pension schemes are a type of pension scheme which a person may join privately, to save for an income in retirement to supplement his or her state pension.

Personal pension schemes are not run by the state, but are approved by the Inland Revenue and receive tax advantages.

From 6 April 2001, you do not have to be working to join or pay into a personal pension scheme.

Special types of personal pension scheme

Group Personal Pensions (GPPs)

An employer may arrange, through a pension provider, a personal pension scheme for his or her employees. This is commonly called a **Group Personal Pension (GPP)**. These are personal pension schemes, and should not be confused with **employers' occupational pension schemes**, for which there are different tax, benefits and contributions rules. Please see booklet IR2 'Occupational Pension Schemes - A guide for members of tax approved schemes' for more information on occupational pension schemes. Chapter 9 gives details of how to obtain a copy.

If you are not sure whether the scheme you are a member of is a personal pension scheme or an occupational pension scheme, you should ask your scheme administrator.

Stakeholder pension schemes

A **stakeholder pension scheme** is a new type of pension scheme which has been available since 6 April 2001. Stakeholder pension schemes must meet strict standards set by the Government, for example, on cost, flexibility, and the way the scheme is run. (For more details of the standards imposed on stakeholder pension schemes, please see the Department for Work and Pensions leaflet 'Stakeholder pensions - your guide (PM 8)', see Chapter 9 for details of how to obtain a copy.) However, for tax purposes a stakeholder pension receives exactly the same treatment as a personal pension scheme.

Since 8 October 2001, most employers with five or more employees must offer access to a stakeholder pension scheme, unless they already offer a suitable pension scheme. Your employer may have chosen a stakeholder pension scheme which you can join if you wish. Again, this is a type of personal pension scheme, and is not the

same as an employer's occupational pension scheme - even if the employer is running the stakeholder pension scheme.

You may also join a stakeholder pension scheme of your choice, without going through your employer.

All stakeholder pension schemes are contracted-out schemes (see below).

In this booklet, unless stated otherwise, all references to personal pension schemes include stakeholder pension schemes.

Appropriate Personal Pension Schemes and Appropriate Personal Pension Stakeholder Pension Schemes

As well as the basic state pension, employees can get an additional pension from the state, which is earnings-related.

This additional pension was commonly known as SERPS (State Earnings-Related Pension Scheme) before 6 April 2002, but has since been known as the State Second Pension. Your right to SERPS or State Second Pension does not depend on your right to a basic state pension.

The amount of additional pension you can get is based on the amount and type of earnings on which you have paid National Insurance contributions since 6 April 1978, and, from 6 April 2002, on the lower earnings threshold.

Since April 1987, employees have been able to use a personal pension scheme (or, from April 2001, a stakeholder pension scheme) to contract out of SERPS or the State Second Pension - see Chapter 8. This means that part of their National Insurance contributions goes into their personal or stakeholder pension scheme, which will then provide a replacement for SERPS or the State Second Pension. Most of the schemes which are authorised to do this are called **Appropriate Personal Pension schemes (APP)**, or **Appropriate Personal Pension Stakeholder Pension schemes (APPSHP)**. But if the scheme is run by your employer the scheme is either a **Contracted-out Money Purchase scheme (COMP)** or a **Contracted-out Money Purchase Stakeholder Pension Scheme (COMPSHP)**.

Tax approval

What is the purpose of tax approval?

The Government wishes to encourage people to provide for their retirement by contributing to a pension scheme and offers incentives to do so through tax relief.

What are these tax incentives?

Tax approval means that

- you get tax relief on payments you make to a personal pension scheme
- you are not taxed on any contributions your employer makes to the scheme
- your employer gets tax relief on contributions he or she makes to the scheme
- the scheme itself pays no tax on the capital gains and on most of the income it makes while investing the funds on your behalf
- you can get some of your benefits from the scheme free of income tax.

If a scheme does not have tax approval it does not get these tax reliefs. **The information in this booklet refers only to approved schemes. Your scheme administrator will be able to tell you if your scheme is approved.**

Where are the tax rules written down?

Some of the tax rules are contained in legislation. The main legislation is in Chapter IV of Part XIV of the Income and Corporation Taxes Act 1988 (ICTA). Other rules are covered by regulations which have also been passed by Parliament. The legislation is published, and is available in the reference section of larger public libraries, and on the Internet (see Chapter 9). Personal pension and stakeholder pension schemes are approved by the Inland Revenue under section 631 of ICTA.

Schemes must operate in accordance with the guidance laid down by the Inland Revenue in the Personal Pensions Schemes Guidance Notes IR 76 (2000). This is a detailed publication written for people who are professionally involved with pensions and who have regular dealings with the Inland Revenue. It is published on the Inland Revenue website (see Chapter 9).

What are the main features of personal pensions?

Personal pensions offer choice and flexibility in several ways. In particular

- they are available through a wide range of bodies (referred to in this leaflet as 'pension providers')
- employers may contribute (if they wish)
- you may be able to tell your pension provider how you wish your fund to be invested
- you can start taking your benefits at any time between the ages of 50 and 75
- if you are an employee, personal pensions may be used as a way of opting out of the additional state pension, commonly known as SERPS or the State Second Pension. This is known as 'contracting-out'
- as long as your contributions do **not** exceed certain limits, you may contribute to a personal pension scheme **even if you are not working**
- if you pay contributions which are based on the level of your earnings, you do not have to provide proof of your earnings every year. Once evidence of your earnings has been provided, it will allow payments to be made based on those earnings **for that year and the following five years**
- in a stakeholder pension scheme, the scheme must accept any contribution of £20 or more. Some schemes may accept even lower contributions
- in a stakeholder pension scheme, the maximum yearly charge you pay as an administration fee is 1% of the value of your personal fund. Some schemes may charge even lower fees.

How do personal pensions work?

Contributions are paid into the scheme you select and are invested on your behalf. The investments build up in the scheme until you decide to draw your benefits. Part of the fund may be taken as a lump sum free of income tax and the rest must be used to provide you with a pension and, if you wish, benefits for your spouse and/or dependants on your death.

Generally speaking, the earlier you start to contribute and the more you pay in, the higher your pension should be. However, there can be no firm guarantees as to the size of the pension you will receive. Personal pensions are 'money purchase schemes', which means that the benefits paid depend entirely on the size of the individual's fund (unlike some employers' occupational pension schemes, in which the pension is based on a percentage of your salary for every year of service).

Who can provide personal pensions?

Many types of pension provider can set up approved personal pension schemes. Life assurance companies and certain friendly societies have been doing this sort of business for a long time. Banks, building societies, unit trusts, and other similar bodies have also offered personal pensions for several years and, from 6 April 2001, the list of people who may provide personal pensions has been expanded. The new categories include, for example, employers, trade unions or other affinity groups such as membership organisations.

A stakeholder pension scheme provider must also meet certain other requirements so that the scheme can be registered with the Occupational Pensions Regulatory Authority (Opra).

What is a SIPP?

A SIPP is a self-invested personal pension scheme. It is the same as any other type of personal pension, except that you can choose how it is invested.

Some investments are not allowed by the Inland Revenue, for example residential property and transactions with a party related to the member. Full details can be obtained from the pension provider.

What is an IPA?

Some schemes may hold your money in what is called an individual pension account (IPA). This is a new arrangement designed to provide a simple and clear way of holding money in a pension scheme. If you have an IPA, your money will be invested in a selection of investments, including shared funds such as unit trusts. These allow you to invest in stocks and shares in a way that spreads the risks. The values of these funds are shown in many daily newspapers so you should easily find out what your funds are worth. You can easily transfer your pension savings in this type of arrangement from one scheme to another. IPAs have been available since April 2001.

Chapter 3 - Joining a personal pension scheme

Can I have a personal pension?

You may contribute to a personal pension scheme in a particular tax year if you are under age 75 and, in the tax year, either

- you have no earnings at all, but you satisfy the requirements at **A** below,

OR

- you have earnings chargeable to United Kingdom (UK) tax which are not being pensioned through an employer's occupational pension scheme,

OR

- you only have earnings which are chargeable to UK tax and are being pensioned through an employer's occupational scheme, but you satisfy the requirements at **A** and **B** below.

A The further requirements are that you must be either

- resident and ordinarily resident in the UK (if you are not sure of your residence status, you should contact your Tax Office), or
- not resident and ordinarily resident in the UK, but you were resident and ordinarily resident in the UK in one of the last five tax years and you were resident and ordinarily resident in the UK at the time you set up your personal pension arrangements, or
- a Crown Servant serving overseas, or their spouse.

B These further requirements only apply if

- **you have one employer and you are a member of your employer's occupational pension scheme(s), or**
- **you have more than one employer and you are a member of one or more occupational pension scheme(s) in respect of each of your employers.**

Most people who are members of their employer's occupational pension scheme(s) may make personal pension contributions at the same time. You may do so if, in the tax year in question, one of the following applies to you.

- 'Concurrency'
 - you are not a controlling director of any company at any time in that tax year, or in any tax year in the last five tax years (only count years from 2000-2001 onwards)

AND

- in at least one of the previous five tax years (only count years from 2000-2001 onwards), you held a job or jobs on 5 April in that tax year,

AND

- your pay that tax year from that job or jobs was £30,000 or less.

(For this purpose, 'pay' means types of and amounts of earnings subject to PAYE - so benefits in kind and self-employed earnings are not included - and for jobs held for only part of a tax year, the amount of pay must be converted to an annual figure.)

- 'Contracting-out'
 - you are joining the personal pension scheme solely to contract out of the additional state pension, commonly known as SERPS or State Second Pension. (Please note - you may contract out through one APP scheme at any one time.)
- 'Death in service only' - your occupational pension scheme only gives benefits if you die before you retire.
- You may also qualify to make contributions to a personal pension scheme if your occupational scheme(s) membership does not cover the whole tax year. If this applies to you, ask the personal pension scheme administrator whether you qualify.

There is a flowchart to help show whether or not you may join a personal pension scheme and if so how much you can contribute to it at Appendix 1 on page 36. See also Chapter 4 for guidance on contributions.

How do I join a personal pension scheme?

Once you have selected a scheme which you want to join, you will have to make a formal application to become a member of the scheme.

You may be able to apply to join a scheme over the telephone or through the Internet, or you may be asked to fill in a form. Whatever method you use, you will have to give certain details and make certain declarations. In some cases you will also

have to provide evidence to back these up. The scheme administrator will let you know what is required.

If you have joined a personal pension scheme through your employer, the employer can arrange to deduct your contributions from your pay and pass them on to your scheme. If you have joined your employer's chosen stakeholder pension scheme, and wish your employer to deduct your contributions from your pay and pass them on to the scheme provider, your employer must do so.

If you have joined a personal pension scheme of your own choice, you will have to make your own arrangements with the pension provider to pay your contributions to the scheme.

If you want to join a stakeholder pension scheme, you may want to check that the scheme you are joining is registered as a stakeholder pension scheme. Stakeholder pension schemes are registered by the Occupational Pensions Regulatory Authority (Opra) - see Chapter 9.

Should I have a personal pension?

Whether it is in your interest to join a personal pension scheme depends on your own personal circumstances. The Department for Work and Pensions have produced a series of leaflets which may help you decide whether a personal pension is for you. Please see Chapter 9 for details of these leaflets and how to get them.

You may find it helpful to seek the views of an independent financial adviser (who will charge for his or her advice).

If you do decide to join a personal pension or stakeholder pension scheme, the earlier you start to make contributions, the better.

Chapter 4 - Contributing to a personal pension scheme

Who can contribute to a personal pension scheme?

Contributions can be made by one or more of the following

- the member (you)
- your employer (if any, and if they wish)
- the Inland Revenue National Insurance Contributions Office (if you have used the personal pension to contract out of the additional state pension, commonly known as SERPS or State Second Pension).

How much can I contribute?

Note - the annual contribution limits mentioned below include all amounts from you and your employer (if any) added together.

Everyone who is eligible to make contributions to a personal pension scheme can pay up to a limit known as the 'earnings threshold' every year whether they have earnings or not.

This earnings threshold is set at £3,600 for tax years 2001-2002 and 2002-2003, but will be reviewed regularly. The figure includes tax relief at basic rate. For example, if you made a payment of £2,808 this would be increased to £3,600 by way of a refund of tax relief from the Inland Revenue (using a basic rate of tax of 22%). If you pay £100, this will be increased to £128.20 in the scheme by the addition of basic rate tax relief on the £100. **This applies even if you are a non-taxpayer.** (see Chapter 6).

You may be able to pay contributions above the earnings threshold if you fall into any of the following three categories.

1 You have earnings from a job (or jobs) which is not being pensioned through an employer's occupational pension scheme.

You may contribute a percentage of the earnings from the job(s) not already being pensioned. The percentage depends on your age on 6 April of the tax year concerned. See the table on page 12. (If the percentage results in a figure lower than £3,600 your limit will still be £3,600.)

2 You are a member of your employer's occupational pension scheme(s), but it only provides death in service benefits (i.e. it does not actually provide a pension for you).

You may contribute a percentage of your earnings from the job covered by the death in service scheme. The percentage depends on your age on 6 April of the tax year concerned. See the table below. (If the percentage results in a figure lower than £3,600, your limit will still be £3,600.)

Age on first day of tax year (6 April)	Maximum percentage of earnings
35 or under	17.5%
36-45	20%
46-50	25%
51-55	30%
56-60	35%
61-74	40%

These figures include tax relief at basic rate on the contribution, as well as any contributions made by your employer.

There is an earnings ceiling which is reviewed every year. In tax year 2002-2003, you can only count the first £97,200 of your earnings.

You don't have to use your current earnings in the calculation. You need to choose a 'basis year' on which you want your contributions to be based. This may be the current year, or one of the previous five tax years. You will need to provide your personal pension scheme with evidence of your earnings in this 'basis year'. This may be, for example, a P60 in the case of an earlier year, or a letter from your employer confirming your earnings in the current year. The scheme provider will advise you what evidence you need to provide.

Once you have done this, those earnings may be used to base contributions on in the basis year itself and the five following tax years - even if your earnings go down. So you do not have to provide fresh evidence of your earnings every year. You only need to do this when you choose a new basis year, for example, when the five year period has expired, or if your earnings have gone up and you wish to increase your contributions to the pension scheme accordingly.

Example 1

You are 36 at the beginning of the tax year. Your age related percentage is therefore 20% (see table on page 12).

The basis year you have chosen is a year in which your earnings were £20,000. The maximum total contribution to your fund in the tax year is therefore £4,000 (£20,000 x 20%), inclusive of tax relief.

Your employer has agreed to make a total contribution of £500 into your personal pension scheme during the year.

This leaves a balance of £3,500, inclusive of tax relief at basic rate.

If you want to, you may pay a further £2,730 to your personal pension scheme and the Inland Revenue will add a further £770 in tax relief (assuming a basic rate of tax of 22%).

This would result in a total contribution in the year of

Employer's contribution £500

Your additional payment £2,730

Tax relief £770

Total **£4,000** (20% of your earnings in the basis year).

3 You have left work, but your earnings level had meant you could pay contributions higher than the earnings threshold

There are special rules to allow you to continue to pay these higher contributions even though you no longer have any earnings, for example, out of any savings you may have. These rules only apply where you have stopped earning altogether. You could continue to make the higher contributions for up to five years after the year you stopped earning. See Appendix 2 for more details.

Your scheme administrator will be able to tell you how much you can contribute to the scheme.

What if I have joined my personal pension scheme purely to contract out of SERPS or State Second Pension?

Only the National Insurance Contributions Office's minimum contributions can be paid into the scheme (see Chapter 8).

How often do I have to contribute?

That is for you and the pension provider to decide. You can pay monthly, annually, or on any other time basis you agree. If the scheme is a stakeholder pension scheme, the provider must not restrict the frequency of your contributions, but may refuse to accept any contribution of less than £20 (net of basic rate tax).

How do I know what my fund is worth?

The trustees or managers of the scheme must provide you with regular information. This includes an annual statement showing the contributions paid during the year, the value of the fund at the end of the year and, from April 2002, an illustration of the amount of pension you might receive on retirement.

Can I contribute to more than one personal pension scheme at the same time?

Yes. You may be in as many personal pension schemes and stakeholder pension schemes as you wish at the same time, but the limit on total contributions applies to all personal and stakeholder pension schemes added together, that is, you don't increase the limit by having more than one scheme.

Note: If you have contracted-out of SERPS or State Second Pension through an APP or APPSHP scheme, you can only have the National Insurance minimum contributions (see Chapter 8) paid into one scheme in each tax year.

Can I contribute to an occupational pension scheme and a personal pension scheme at the same time if I only have one job?

Yes, from 6 April 2001, even if you are in an occupational pension scheme(s) for all your jobs you may **in addition** be able to make contributions to a personal pension scheme. This is sometimes called 'concurrency'.

If you satisfy the conditions on page 8 and 9 you may take advantage of the 'concurrency' rules, and contribute up to £3,600 to a personal pension as well as making maximum occupational pension scheme contributions to your employer's scheme.

If you are not sure if the employer's scheme you are in is an occupational pension scheme, you should ask the scheme administrator. Some employers may set up their own stakeholder pension schemes, but as these are a type of personal pension, the 'concurrency' rules do not apply. The limit which applies is that set out in the answer to the previous question.

Benefits that come from contributions you make under 'concurrency' are paid on top of any benefits due from an occupational pension scheme.

I am paying Additional Voluntary Contributions (AVCs). Does this make a difference?

This does not matter. Your AVC contributions (including Free Standing AVCs) count towards your occupational pension scheme limit of 15% of earnings. If you satisfy the conditions above, you may continue to pay into your occupational pension scheme and your AVC, and also pay up to the 'earnings threshold' (£3,600 in tax years 2001-2002 and 2002-2003) to a personal pension scheme.

Can I still contribute if I change jobs?

If you change jobs, and join your new employer's occupational pension scheme, you may still be able to continue to contribute up to the 'earnings threshold' to your personal pension in addition to your occupational pension (see answers to the two previous questions). If you change jobs and do **not** join your new employer's occupational pension scheme, your personal pension can continue as before, contributing either up to the earnings threshold, or above it if your age and earnings level justify it.

You may also continue to contribute up to the 'earnings threshold' every year if you are out of work (for example, from your savings). In some circumstances, you could pay more (see Appendix 2 for more details).

Can I get my contributions back?

Personal pensions are intended to give you an income when you retire. Because of this, you will have had the benefit of tax relief on your contributions and fund investments. Neither the contributions nor the fund itself can be refunded. They will be used to provide your pension benefits when the time comes. However, if you pay a sum which does not qualify for tax relief, it will be returned to you (for example, if you have paid an amount which exceeds the earnings threshold but your earnings level does not justify it, or if you have joined a scheme you were not eligible to join).

What is the 'earnings cap' (or 'permitted maximum')?

Since the tax year 1989-90, there has been a ceiling on the amount of earnings which can be pensioned through a personal pension scheme in any tax year. The limit is reviewed every year. The limit for the tax year ending 5 April 2003 is £97,200. Earnings above this amount cannot be pensioned through a tax approved scheme. This applies to all personal pension members from 6 April 1989, regardless of when they joined the scheme.

Can I have any say in how my contributions are invested?

That depends on the pension provider and the type of arrangement you choose. If you choose a SIPP (see Chapter 3), you may have a wider investment choice. The tax rules allow you to direct that your funds should be invested in particular ways, such as in stocks and shares, or unit trusts.

Can I put assets into my pension instead of paying contributions in money form?

If the scheme rules allow it, you may put shares into your personal pension as contributions if you have acquired them through a savings-related share option scheme, an approved profit-sharing scheme or a share incentive plan and they are put into the pension scheme within certain time limits. No other assets can be used as contributions to a personal pension scheme.

Do I have to stop making contributions when payment of the benefits starts?

Not necessarily. Personal pensions allow you to take some benefits while still paying contributions if you are under 75 years of age. However, no further contributions may be made once you have reached 75, when you must have started taking all your benefits.

The National Insurance minimum contributions (see Chapter 8) will stop at the earliest of the following dates.

- State Retirement Age (currently 65 for men and 60 for women, but, from 6 May 2010, rising in stages to 65 for women by 6 May 2020).
- The date you join a contracted-out employer's occupational pension scheme.
- The date you rejoin the State Second Pension.
- The date you stop earning and paying National Insurance contributions.

If my earnings are below the income tax threshold, can I claim tax relief on my personal pension contributions?

From 6 April 2001, all contributions paid by individuals are treated as paid net of basic rate tax, so everyone gets basic rate tax relief on their contributions even if their earnings are below the income tax threshold.

I have been a member of a personal pension scheme for several years, but have not been making the maximum contributions which I could have. Is it possible for me to make up for the shortfall now?

There is a system called 'carry back'. This allows you to ask the Inland Revenue to treat a contribution you are making now as if it had been paid in the previous tax year. This means that if you had not already paid your maximum contribution in that earlier year, you could make up the shortfall by a contribution now, which you would 'carry back'.

Example 2

In 2001-2002, Miss Brown, who is 25, makes a contribution of 6% of her earnings to her personal pension/stakeholder pension leaving a shortfall of 11.5% (17.5% less 6%) for that year.

The next year, 2002-03, she again contributes 6%, but later in that year decides to pay another 10%. She can carry back the 10% contribution to the previous year, as she had not made the maximum contribution that year. She has to make a formal election to carry the contribution back, and must do this either before or at the time of the contribution, but no later than 31 January 2003.

The Inland Revenue will treat the contribution for tax purposes as if it was made in the earlier year.

This means that Miss Brown's carried back contribution will qualify for tax relief at the income tax basic rate in force in 2001-02.

I do not pay UK tax. Can I still contribute to my personal pension scheme?

If you are a member of a personal pension scheme and you move overseas, but no longer have UK taxable earnings, you may still pay up to the earnings threshold to your personal pension scheme in a particular tax year if you are, or have been, resident and ordinarily resident in the UK

- at some time in that year, or
- at some time during the previous five tax years.

You may be able to pay more than the earnings threshold if the special rules in Appendix 2 apply to you.

If you are not sure if you are chargeable to UK income tax, you should ask the Tax Office dealing with your tax affairs.

Do I have to pay National Insurance contributions on the money I am paying into my personal pension?

Yes, if you are paying into your personal pension out of your earnings.

If my employer makes a contribution for me, am I taxed on that amount as a benefit in kind?

No, employer contributions are not liable for income tax on the employee, and should not be entered on form P11D. Neither are they liable for employer or employee National Insurance contributions.

Chapter 5 - Transferring your pension fund

Can I transfer my fund to another scheme?

As long as benefits are not already being paid, transfers can be made

- between personal pension schemes
- from retirement annuity contracts to personal pension schemes
- from personal pension schemes to employers' occupational pension schemes
- from employers' occupational pension schemes to personal pension schemes (there may be some restrictions)
- from a Free-Standing Additional Voluntary Contribution scheme (FSAVC) to a personal pension scheme (if you have left pensionable service)
- from a personal pension scheme to a FSAVC (there may be some restrictions), and
- from one employer's occupational pension scheme to another.

If you are taking income withdrawals, you may transfer to another personal pension scheme, subject to certain conditions.

The personal pension scheme may make a charge for arranging a transfer. However, if the scheme is a stakeholder pension scheme, it must not make any charge over the 1% limit for transfers to or from other pension schemes.

I have recently emigrated and wish to transfer my personal pension fund to the country to which I have moved. Is this possible?

You may be able to transfer your personal pension fund to an overseas pension scheme. You have to be permanently resident, working and a member of a pension scheme in the country in which you now live. You should contact your UK provider to arrange the transfer. The UK provider may need to get written authority from the Inland Revenue before the transfer may proceed.

When I have transferred into the personal pension scheme, do I have to carry on contributing to it?

No, you may become a member of a personal pension scheme for the sole purpose of receiving a transfer payment from another approved pension scheme.

What happens if I am overseas when I start receiving my benefits?

If you are resident overseas and receiving a pension from a UK annuity you are still liable for UK income tax under Schedule E. There may be a Double Taxation Agreement between the UK and the country you are resident in. If so, you can apply for exemption from UK income tax. If not, you may still qualify for tax relief under other rules. You should contact the Inland Revenue (Centre for Non-Residents), Customer Services Section on **0115 974 2000**.

Chapter 6 - The tax reliefs

How do I get tax relief on my contributions?

From 6 April 2001, all member contributions are treated as amounts paid net of basic rate tax, whether you are employed, self-employed or not employed at all.

The pension scheme then claims tax relief at basic rate from the Inland Revenue on your behalf and adds it to your fund.

If you are a higher rate taxpayer, you can claim the balance of tax relief due from the Inland Revenue, by completing the relevant section on your Self Assessment income tax return. Or during the year, you may obtain form PP120 from the scheme administrator or any Tax Office and return it completed to your Tax Office.

Example 3

You want £100 to go into your personal pension scheme.

The basic rate of income tax for 2002/2003 is 22%, so you actually pay only £78 (from your earnings, savings, or other source of funds).

The pension scheme will claim the £22 tax relief back from the Inland Revenue, so the full £100 is credited to your scheme. This applies whether you are a basic rate taxpayer, a higher rate taxpayer or a non-taxpayer.

If you are a higher rate taxpayer you claim the balance of tax relief (£18, if higher rate income tax is 40%) through Self Assessment, or by using form PP120 (see above).

Are any other tax reliefs available?

Yes. On top of the tax relief you are given on contributions, your pension fund will be exempt from tax on the capital gains and on most of the profits from the investments made with your contributions. Some benefits paid by your scheme are also free of income tax. These are described in Chapter 7.

Chapter 7 - Benefits from a personal pension scheme

When can I take my personal pension benefits?

If your personal pension has been used to contract out of the additional state pension, commonly known as SERPS or State Second Pension, the pension from the protected rights provided by the National Insurance rebates can be paid to you at any age from 60 to 75.

However, personal pensions are designed to be flexible, and you can take all your other benefits at any time between the ages of 50 and 75, whether you retire fully or not. You don't have to take all your benefits at the same time, but you must have started taking all your benefits by the time you reach 75.

There are special rules where a member under the age of 50 is incapable through illness or injury of carrying on their normal occupation. You may also take benefits before age 50 if the Inland Revenue has agreed a lower pension age for the occupation you are employed in. Your scheme administrator will advise you if there is a low pension age for your occupation.

What benefits can I take from my personal pension?

A lump sum free of income tax: You may choose to take up to 25% of the fund which has built up to provide your retirement benefits as a lump sum, but you must also buy an annuity or take income withdrawals at the same time (see below and pages 24 and 25). It is not possible to take 25% of the fund as a tax free lump sum leaving the other 75% of the fund untouched.

You should also be aware that

- the part of the fund built up from National Insurance contributions while contracted-out of SERPS or State Second Pension (known as 'protected rights') cannot be taken into account, because protected rights may only be used to provide pension benefits, not lump sums
- your lump sum entitlement may be restricted if any part of your fund was transferred in from an occupational pension scheme and you were in a category that needed a lump sum certificate (controlling directors and high earners).

An annuity: An annuity is an investment product you buy with the money in your pension fund, which will pay you a pension. The Inland Revenue does not limit the amount of the pension you can take from the scheme: the only Inland Revenue limit is on the amount of contributions you can pay into the scheme. The size of the pension you get will depend on, among other things

- how much you have paid in
- how successfully the money has been invested
- whether you have chosen to provide benefits for your spouse and/or dependants
- whether you decide to take a lump sum free of income tax
- the type of annuity you buy.

Annuities are dealt with in more detail on page 25.

Income withdrawals: If you do not want to buy an annuity straight away, you may (if your scheme rules allow) choose instead to take income withdrawals for a period of time, until your 75th birthday at the latest. This is generally referred to as 'income drawdown'. There are limits laid down on the minimum and maximum amounts you must take each year, based on the amount of the annuity you could have bought with your fund.

Income withdrawals are dealt with in more detail on page 26.

Death benefits: Your personal pension can provide death benefits if you wish. There are several options, including, for example

- a pension for your spouse and/or dependants, or
- if you die before your pension starts, your fund can be paid to your estate or a person you have nominated.

You can also, if you wish, use some of your contributions for term life assurance. This will provide your widow, widower or dependant(s) with a lump sum if you die before your pension has started. However, these contributions will count towards your overall contribution limit, so the amount you can pay towards your own pension will be less.

For contracts which started before 6 April 2001, you can, if you wish, pay up to 5% of your earnings for term life assurance. For contracts starting on 6 April 2001 or later, the rules are different. The maximum you may pay towards term life assurance is 10% of the amount you are paying towards retirement benefits. For example, for every £100 you pay towards your own retirement benefits, you may pay another £10 to a term life assurance policy under the scheme.

Death benefits are dealt with in more detail on page(s) 26-29.

What is an annuity?

An annuity is a contract between you and an insurance company. The insurance company agrees to provide you with a guaranteed pension income for the rest of your life in return for the money in your pension fund.

The cost of an annuity depends on the market annuity rates at the date you buy it and will be based on factors such as your age and sex. It will also depend on the type of annuity you opt for and the provider you buy it from.

An annuity may be bought from

- your pension provider, if it is an insurance company, or
- any other insurance company of your choice offering annuities (this is called the 'open-market option'). As rates from different providers vary, it may be worth shopping around.

You may buy an annuity which pays you

- a level pension
- a pension which increases at a fixed rate each year
- a pension which is linked to the growth in the underlying assets, or
- an index-linked pension.

You may also buy an annuity which is guaranteed for up to 10 years from the date you buy it (even if you die before then), or which guarantees to increase your pension at a fixed rate every year. These are more expensive to buy. An annuity providing a level pension of £5,000 per annum, for example, will cost a lot less than an annuity providing a pension of £5,000 which is increased every year by the retail price index, or one which is guaranteed for 10 years.

What is 'phased retirement' or 'staggered vesting' ?

Often, a member's fund is split into more than one arrangement within a scheme (scheme providers sometimes refer to these multiple arrangements as 'segments'). This allows a member to start drawing benefits from different arrangements at different times (sometimes called 'phased retirement' or 'staggered vesting'). This makes the pension more flexible.

What is income withdrawal and how does it work?

Income withdrawal is an option which allows you to put off buying an annuity and take benefits directly from your pension fund. Your fund remains invested under the scheme rules. You do still have to buy an annuity eventually, by your 75th birthday at the latest.

If you choose this option, you must withdraw from your fund each year

- at least 35% (the minimum), and
- no more than 100% (the maximum)

of the annual amount of the annuity which could have been bought with your fund on the day you started taking your benefits. You can make withdrawals at regular intervals (for example, monthly or quarterly) or once a year, either in advance or in arrears.

The minimum and maximum withdrawal limits are calculated by your scheme administrator based on special tables produced by the Government Actuary's Department (GAD). Your scheme administrator must make the first calculation on the date when you first start to take benefits and in most cases review the limits every three years.

You may choose to buy an annuity with all or part of your fund at any time. You should also bear in mind that the whole fund must have been used to buy an annuity/annuities by your 75th birthday.

What happens if I die before my pension starts?

If you have no survivors (spouse or dependants) or have not nominated anyone to receive benefits from your scheme, your fund plus any lump sum payable from a life assurance contract under the scheme can be paid in any of the following ways.

- To your legal personal representatives (executors or administrators) to hold as part of your estate.
- To a beneficiary previously nominated by you (who does not have to be a dependant).
- Under the terms of a trust previously set up by you.
- To any other person or body at the scheme administrator's discretion.
- In the case of an assigned life assurance contract only, to the person it has been assigned to.

The payment is not subject to income tax.

If you have survivors, it depends on the terms of your arrangement. If the arrangement includes a survivor's annuity on your death, then the survivor may have either an annuity or income withdrawals from the fund. This includes any protected rights under the arrangement. He or she may also have a lump sum payable under a term assurance contract, if this was part of your arrangement.

If the arrangement does not include a survivor's annuity, then as long as certain conditions are satisfied, your fund may be paid to your survivor as a lump sum. Any protected rights element has to be paid as either an annuity or income withdrawals to your widow or widower, if you have one, and if not, either according to your written instructions, or to your estate.

What happens if I am receiving an annuity when I die?

If you are receiving a pension income from an annuity when you die, an annuity may be provided for your survivor(s) if this was part of the arrangement. The survivor(s) cannot choose to have income withdrawals instead.

The initial annual amount of all your survivors' annuities under an arrangement cannot exceed the annual amount of the annuity actually being paid to you from that arrangement at the date of your death.

An annuity for a spouse must be payable for life, unless it is designed to end on remarriage. An annuity for a child must end at age 18 or on finishing full-time education, if later, unless the child continues to qualify as a dependant. Your survivor(s) may buy an annuity which pays them

- a level pension
- a pension which increases at a fixed rate every year
- a pension which is linked to the growth in the underlying assets, or
- an index-linked pension.

The annuity may be guaranteed for up to 10 years from the date it was bought. This means it will continue to be paid even if the survivor dies within that period. If this happens, the annuity may be dealt with as part of his or her estate.

What happens if I die whilst drawing benefits through income withdrawal?

This depends on the terms of your contract with your provider and the scheme rules. You will generally be given the option of nominating that, if you die, your fund is to provide benefits for your survivors (spouse and/or dependants). Any survivor entitled to a benefit from the scheme has the option of

- buying an annuity to provide benefits immediately
- putting off the purchase of his or her annuity until a later date (if he or she is under 60)
- taking pension payments through income withdrawal (an annuity must be bought by his or her 75th birthday), or
- taking his or her share of the fund as a lump sum, which is taxed at 35% (but any protected rights in the fund must provide a pension and may not be paid as a lump sum).

The initial annual amount of all your survivors' pension benefits cannot be more than the highest annual amount of the annuity which your fund would have provided for you on the date of your death.

If you have no survivors or you have not nominated a beneficiary, benefits will be paid out at the discretion of the scheme administrator under the scheme rules. If the fund is not paid out to a survivor (but, say, to your estate) the fund will be returned as a lump sum payment taxed at 35%.

What can happen to my personal pension scheme benefits if I get divorced?

The court will take the value of your personal pension fund into account in determining the financial settlement on divorce. There are three methods of dealing with your pension fund.

- **Offsetting** - other assets are used to compensate the ex-spouse for the loss of pension benefits.
- **Earmarking** - the court can order the pension arrangement to pay maintenance or a lump sum out of the member's pension directly to the ex-spouse when the member retires. However, earmarking does not allow a clean break since title to the pension rights remains with the spouse in whose name the rights accrued. For example, this means that the ex-spouse will lose the intended pension income if the member spouse dies first.
- **Pension Sharing** - a court order must be obtained at the time of the divorce. The pension scheme will reduce the value of the member's pension rights by the percentage specified in the pension sharing order ('pension debit') and an amount equivalent to the reduction ('pension credit') will be transferred to the ex-spouse. If the ex-spouse is a member of an occupational pension scheme, the pension credit will not restrict the benefits she or he is accruing in her or his own right. Because the benefits from pension credit now belong to the ex-spouse, they cannot be lost if, for example, the member spouse dies first.

What income tax do I pay on the benefits?

- The part of the benefits you take as a lump sum will be free of income tax.
- The part paid as an annuity or income withdrawals will be subject to income tax under PAYE.

If you have any more questions about the income tax position of personal pensions in payment, any Tax Office or Inland Revenue Enquiry Centre will be able to help. They are listed in the telephone directory under 'Inland Revenue'. Most offices are open to the public from 8.30am to 5.00pm Monday to Friday and some are also open outside these hours.

Chapter 8 - Contracting-out of the additional state pension

What does it mean if a personal pension scheme or stakeholder pension scheme is contracted-out?

Many personal pension schemes and all stakeholder pension schemes are able to provide their members with the additional pension that is provided by the state (this used to be known as SERPS, but since 6 April 2002 has been known as the State Second Pension). If a member chooses to join such a scheme, they have elected to 'contract out' of SERPS or, from 6 April 2002, the State Second Pension and the state will no longer be responsible for providing the additional pension. This will now be the responsibility of the pension scheme.

How do I know if I am already contracted-out?

Your scheme administrator should be able to tell you. If not, you can contact the National Insurance Services to Pensions Industry (part of the Inland Revenue, formerly called the Contracted-Out Employments Group). Their Helpline number is shown in Chapter 9.

If you are a member of a stakeholder pension scheme where the provider of the scheme is your employer, you are automatically contracted-out through that scheme.

How do I contract out of the State Second Pension (previously SERPS) through a personal pension or stakeholder pension?

You can contract out of the State Second Pension (formerly SERPS) through a personal pension if it satisfies the rules for this purpose (it is up to the pension provider, not you, to make sure that it does). Most such personal pension schemes are referred to as 'Appropriate Personal Pension Schemes' (APP) or 'Appropriate Personal Pension Stakeholder Pension Schemes' (APPSHP). You arrange to contract out of the State Second Pension (formerly SERPS) through your pension provider.

If you are a member of a scheme where the provider of the scheme is your employer, the scheme will be a Contracted-out Money Purchase (COMP) scheme rather than an APP. If the scheme is a COMP stakeholder pension scheme, you will automatically be contracted-out through the scheme.

What will it cost?

It doesn't cost any extra. If you use an APP or APPSHP instead of the State Second Pension, you will pay full-rate National Insurance contributions.

The Inland Revenue National Insurance Contributions Office will pay an amount, based on the earnings on which you have paid National Insurance Contributions - called 'minimum contributions' - direct to your APP or APPSHP. The additional pension you would have received based on these earnings will be replaced by the pension you receive from your scheme.

The minimum contributions paid on those earnings accrued from 6 April 1997

- are dependent on your age on 5 April of the tax year immediately prior to the tax year in question, and
- include tax relief at basic rate on your share of the contracted-out rebate.

Further information on 'minimum contributions' can be found in leaflet CA17 'Employee's guide to minimum contributions' which can be obtained from the Pensions Info-line (see Chapter 9).

If you are contracted-out through a COMP or COMPSHP scheme, you and your employer will pay National Insurance contributions to the Inland Revenue at a lower rate. Your employer will pay an amount equal to this reduction to your COMP or COMPSHP scheme. Again, the scheme will pay a pension to you which replaces the additional pension you would otherwise have received from the state.

Does this money just go into my fund?

Yes, but the pension fund originating from these 'minimum contributions' must be kept separate from the rest of your fund so that they can be identified. This fund is known as 'protected rights' and will be used to provide you with a pension to replace the additional pension you would have received from the state when you reached state pension age.

You must buy an annuity with your protected rights fund. If you are not married, you can use the protected rights you have accrued from 6 April 1997 to buy a single life annuity. For both married and single people, the fund accrued from earlier protected rights must be used to buy an annuity which will provide a survivor's pension if you die.

By contracting-out of the State Second Pension (previously SERPS) will I lose the right to a state pension?

You do not lose your right to a basic state pension, but the 'protected rights' in the personal pension scheme do replace your SERPS or State Second Pension entitlement.

How do I know whether to contract out of the State Second Pension (previously SERPS)?

If you are self-employed, or not employed, you do not contribute towards SERPS or State Second Pension and cannot therefore contract out.

If you are an employee and you want to know more about contracting-out, please see the Department for Work and Pensions leaflet 'Contracted-out pensions - your guide' (PM7) please see Chapter 9 for details of how to obtain a copy.

Can I contract back in again?

If you later change your mind and decide to rejoin the additional state pension, you will be able to do so for your future pension rights, but this can only be done from the start of the next new tax year after you make the decision. For example, if you decide to contract back into the State Second Pension in July 2002, this will not take effect until 6 April 2003. You cannot transfer accrued contracted-out rights back into either SERPS or the State Second Pension.

Is there any way I can stay in my employer's occupational pension scheme, which is not contracted-out, but still use a personal pension to contract out?

Yes. A member of an employer's occupational pension scheme which is not contracted-out can arrange to contract out of the State Second Pension, previously SERPS, through a personal pension scheme or stakeholder pension scheme.

Chapter 9 - Further help and information

You can get more information about personal pensions from a variety of places.

- You can find out about your own scheme from looking at the booklets given to you when you joined the scheme or by contacting the scheme administrator.
- You can find out more about the tax rules
 - by ringing the Inland Revenue (Savings, Pensions, Share Schemes) Customer Helpline on **0115 974 1777**
 - by looking at the Inland Revenue website **www.inlandrevenue.gov.uk** under 'Pension Schemes'
 - by writing to **Inland Revenue
(Savings, Pensions, Share Schemes)
Personal Pensions Section
PO Box 62,
Yorke House
Castle Meadow Road
Nottingham
NG2 1BG.**
- Other Inland Revenue pensions booklets, such as IR2 and IR78 are available free of charge
 - from the Inland Revenue (Savings, Pensions, Share Schemes) stationery orderline on **0115 974 1670**
 - from our website **www.inlandrevenue.gov.uk** under 'Pension Schemes', or
 - by writing to **Inland Revenue
(Savings, Pensions, Share Schemes)
Stationery Unit
PO Box 62
Yorke House
Castle Meadow Road
Nottingham
NG2 1BG**

or from any Tax Office or Inland Revenue Enquiry Centre.

- The Department for Work and Pensions produce the following guides
 - A guide to your pensions options (PM 1)
 - State pensions options (PM 2)
 - Occupational pensions - your guide (PM 3)
 - Personal pensions - your guide (PM 4)
 - Pensions for the self-employed - your guide (PM 5)
 - Pensions for women - your guide (PM 6)
 - Contracted-out pensions - your guide (PM 7)
 - Stakeholder pensions - your guide (PM 8)

To get copies of these free guides, you can call the Pensions Info-Line on **0845 7 313233**. Calls are charged at local rates and the line is open 24 hours a day. A textphone number is available on **0845 604 0210**.

Or you can write to **Pension Guide**
Freepost
Bristol
BS38 7WA.

You can also order these free guides online from the Department for Work and Pensions website **www.pensionguide.gov.uk**

You can make enquiries about stakeholder pensions to the Pensions Advisory Service (OPAS) Helpline on **0845 601 2923** which is open from 9.00am to 5.00pm Monday to Friday.

- The Register of Stakeholder Pension Schemes is published on the Occupational Pensions Regulatory Authority (Opra) website **www.stakeholder.opra.gov.uk** or phone **01273 627600**
- You can find out more on Inheritance Tax aspects of pensions by ringing the helpline of Inland Revenue (Capital Taxes) on **0131 777 4204** or **0131 777 4203**,

- or by writing to **Inland Revenue
(Capital Taxes)
Meldrum House
Drumsheugh Gardens
Edinburgh
EH3 7UG.**
- To find out if you are contracted-out of SERPS or the State Second Pension, or for other questions on contracting out, ring the National Insurance Pensions Helpline - **0845 915 0150**
- To contact your Tax Office, look in the local telephone directory under 'Inland Revenue'. Most Tax Offices are open to the public between 8.30am and 4.30pm Monday to Friday and some are also open outside these hours.
- If you find that we have not covered an important area in this booklet, please write to the following address with details so we can consider it for the next edition.

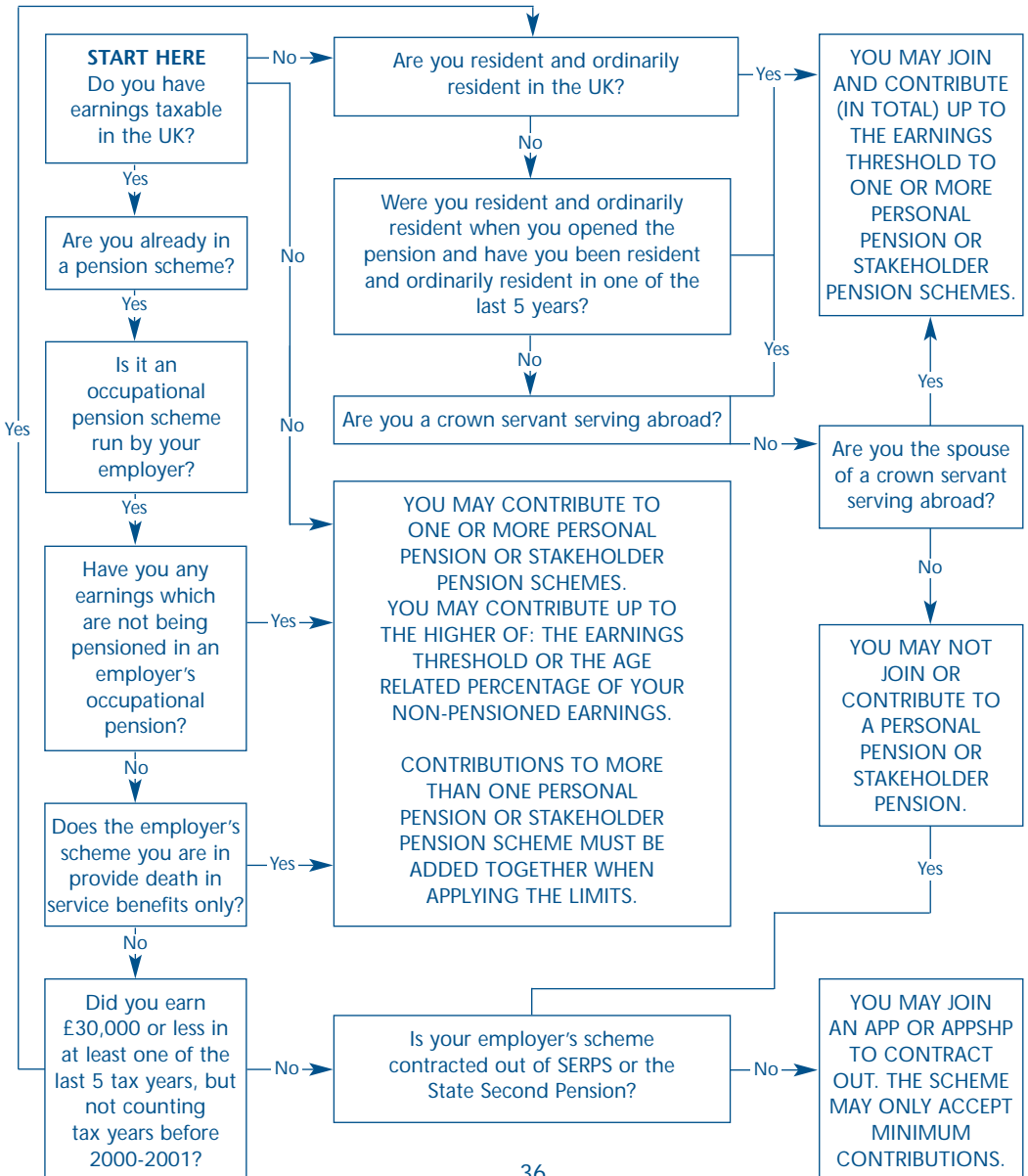
**Customer Service Manager, Inland Revenue
(Savings, Pensions, Share Schemes)
PO Box 62
Yorke House
Castle Meadow Road
Nottingham
NG2 1BG.**

- **We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask your local Inland Revenue office or Enquiry Centre.**

Appendix 1

Can I join a personal pension/stakeholder pension scheme? If so, how much can I pay in?

Note - this flowchart does not apply to controlling directors, people over age 75 or people contributing above the earnings threshold who stop being UK residents.



Ceasing work

There are special rules which allow you to continue to pay contributions which are more than the earnings threshold, even if you have left work and no longer have any earnings. In an extreme case, your earnings in one tax year could be used to justify higher contributions eleven years later.

Do the rules apply to me?

The rules apply to you if

- the first full tax year in which you have no earnings at all from any source is the tax year 2001-2002 or a later tax year, and
- your previous earnings level had meant you could pay contributions over the earnings threshold.

Even though you no longer have any earnings, you may have another source of funds from which to make contributions (for example, any savings you may have).

How many years do these rules apply to?

You may continue to make contributions above the earnings threshold for

- the rest of the tax year during which your earnings ceased (year A) and
- **EITHER** the next five tax years **OR** until a tax year in which one of the following occurs, if earlier
 - you start earning again
 - you are a member of an employer's occupational pension scheme throughout that tax year.

How will my contribution limit be calculated?

In the five tax years following year A (see above), your contribution limit will be a percentage of your earnings based on your age in the current year, and your earnings in a year you choose from one of year A and the five tax years before it.

Example 4

You gave up work part-way through the tax year 2001-2002 to care for your elderly parent. Your recent earnings have been as follows.

Tax year	Your earnings
1996/1997	£35,000
1997/1998	£40,000
1998/1999	£35,000
1999/2000	£35,000
2000/2001	£39,000
2001/2002	£12,000
2002/2003	NIL

You are 45 on 6 April 2002. Your contribution limit in 2002-2003 would have been £8,000 a year on the basis of your earnings in 1997-1998 (20% of £40,000).

You may continue to make contributions up to that limit (£8,000) for the year your earnings stopped, 2001-2002.

You may also continue to make contributions based on your 1997-1998 earnings for the next five years after the tax year during which your earnings stopped, i.e. up to 2006-2007. However, the percentage will change, because on 6 April 2003 you are 46 and 46-50 year olds may make contributions of 25% of earnings. Your contribution limit for tax years 2003-2004 to 2006-2007 inclusive will therefore be £10,000.

If you start earning again, these special rules cease to apply. You will then go back to the normal rules for working out your maximum contribution. You will have to choose a new basis year, from the current year and the previous five tax years. For example

Tax year	Your earnings
2005-2006	£6,000 (You return to work in January - your parent has gone into residential care)
2006-2007	£11,000
2007-2008 onwards	£30,000 a year

Your contribution limit in 2005-2006 would again be either the earnings threshold, or, if higher, 25% of your earnings in one of the years from 2000-2001 to 2005-2006. As you earned £39,000 in 2000-2001, you could pay up to £9,750 in 2005-2006.

In 2006-2007, tax year 2000-2001 would fall out of the picture. You could go back only as far as your earnings in 2001-2002. This means you could only pay up to 25% of £12,000 (your earnings in 2001-2002) which is £3,000, but as the earnings threshold is higher than this (£3,600) your limit would in fact be the earnings threshold - on current figures.

In 2007-2008, you could pay up to 25% of £30,000 (your earnings in that year, which are the highest earnings you have had in 2007-2008 and the previous five years).

On 6 April 2008, you are 51 which means your percentage has increased to 30%. Your highest earnings in the current year and last five years are £30,000, so your contribution limit for 2008-2009 (and the next five years if you wish) is £9,000.

Example 4 in table form

Tax year	Earnings	Years you may base max cont'ns on	Year used	Age %	Contribution limit
1996/97	£35,000	current year (old rules)		20%	£7,000
1997/98	£40,000	"		20%	£8,000
1998/99	£35,000	"		20%	£7,000
1999-2000	£35,000	"		20%	£7,000
2000-2001	£39,000	"		20%	£7,800
2001-2002	£12,000	1996-97 to 2001-02	1997-98	20%	£8,000
2002-2003	NIL	1996-97 to 2001-02	1997-98	20%	£8,000
2003-2004	NIL	1996-97 to 2001-02	1997-98	25%	£10,000
2004-2005	NIL	1996-97 to 2001-02	1997-98	25%	£10,000
2005-2006	£6,000	2000-01 to 2005-06	2000-01	25%	£9,750
2006-2007	£11,000	2001-02 to 2006-07	2001-02	25%	£3,600 (earnings threshold)
2007-2008	£30,000	2002-03 to 2007-08	2007-08	25%	£7,500
2008-2009	£30,000	2003-04 to 2008-09	2007-08	30%	£9,000

Glossary of terms used

Appropriate Personal Pension (APP) - technical name for a personal pension which is taken out in place of the State Second Pension, formerly SERPS, and receives contributions from the Inland Revenue National Insurance Contributions Office. The Inland Revenue National Insurance Contributions Office will only contribute to one APP for a person at any time.

Appropriate Personal Pension Stakeholder Pension (APPSHP) - as above, but a stakeholder pension.

Carry back - a way of having a contribution to your personal pension scheme treated for tax purposes as if it had been paid in the previous year.

Contracted-out Money Purchase scheme (COMP) - a scheme run by an employer that is authorised to provide a replacement for the additional state pension commonly known as SERPS or the State Second Pension for its members. This can be either an occupational pension scheme (not covered in this booklet, but see booklet IR2) or a personal pension scheme.

Contracted-out Money Purchase Stakeholder Pension scheme (COMPSHP) - a stakeholder pension scheme run by an employer. The scheme is authorised to provide a replacement pension for the additional state pension commonly known as SERPS or the State Second Pension. All members of the scheme are contracted-out.

Contracting-out - leaving the State Second Pension, previously SERPS, and joining a personal pension scheme (or an employer's occupational pension scheme) instead. If a member uses an APP or APPSHP scheme to contract out, part of their National Insurance contributions are paid back into it. If they use a COMP or COMPSHP the employer and employee pay lower National Insurance contributions and the employer makes a minimum payment to the scheme.

Controlling director - a company director who on their own, or with their family or business associates, either owns or controls more than 20% of the company that employs them OR owned or controlled more than 20% of the ordinary shares of the company that employs them in the ten years leading up to their retirement, leaving the service of their employer, or leaving their employer's pension scheme. (For concurrency, this ten year requirement does not apply.)

Earnings - for the purposes of the tax rules, this means UK taxable pay which is not being pensioned through an employer's occupational pension scheme. Some types of pay which can be included are salary, wages, bonuses, commission, profit related pay, permanent health insurance payments paid by the employer and, sometimes, benefits in kind. Your scheme administrator will be able to advise you whether a form of income can be treated as earnings. Earnings has a different meaning in Chapter 8, for National Insurance contributions and state pension purposes (see page 4 for explanation).

Earnings threshold - the total amount you and/or your employer may pay to your personal pension scheme every year, regardless of whether you have earnings or how much they are. For the year 2001-2002 and 2002-2003 the earnings threshold is £3,600. This figure will be reviewed regularly. The earnings threshold includes tax relief at basic rate. (If you want to pay more than this figure in a tax year, you will need to justify this higher contribution by your age and earnings level.)

Income withdrawal - this is also called '**income drawdown**'. This allows you to withdraw money directly from a pension fund instead of buying an annuity. You can make withdrawals between your 50th and 75th birthday from the funds built up from your and your employer's contributions. You can withdraw income from protected rights if you are between your 60th and 75th birthdays.

Lower earnings threshold - contracted-out members earning less than the lower earnings threshold in a year will receive a top-up to their State Second Pension entitlement at state pension age based on the difference between their actual earnings in a year and the lower earnings threshold that year. The lower earnings threshold for 2002-2003 is £10,300.

Minimum contributions - money paid by the Inland Revenue National Insurance Contributions Office into an APP or an APPSHP used instead of State Second Pension, previously SERPS.

Money purchase pension - a pension which depends on how much you have paid into/transferred into your plan and how the invested funds have grown. All personal pensions and stakeholder pensions are 'money purchase pensions'.

Pension provider - a financial institution (such as a bank or insurance company) which provides personal pension schemes approved by the Inland Revenue. From 6 April 2001, an employer, a trade union or other affinity group which provides a personal pension scheme approved by the Inland Revenue for its employees or members can also be a pension provider.

Protected rights - the money in an APP or APPSHP fund made up of Inland Revenue National Insurance Contributions Office contributions replacing your State Second Pension or SERPS rights, and investment returns on this money. Also, the money in a COMP or COMPSHP scheme made up of the difference between the contracted-out NI rates and the normal rates, which the employer has paid into the scheme on the member's behalf, the tax relief on this amount and the investment returns on this money.

SERPS (State Earnings-Related Pension Scheme) - until 5 April 2002, the additional state pension paid for through National Insurance contributions. It pays out based on your earnings and the number of years you worked.

State Second Pension - from 6 April 2002, the additional state pension, paid for through National Insurance contributions. It pays out based on your earnings, the lower earnings threshold and the number of years you worked.

We produce a wide range of leaflets, booklets and Helpsheets each designed to explain different aspects of your tax or National Insurance in plain English, and to assist with the completion of tax returns. Most of them are free, and most are also available in Welsh.

Some you might find useful are

- COP1 Putting things right. How to complain
- IR2 Occupational Pension Schemes
- IR78 Looking to the future. Tax reliefs to help you save for retirement

We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask your local Inland Revenue office or Enquiry Centre.

Our IR List 'Catalogue of leaflets and booklets' gives further information about our publications, most of which you can get from any Inland Revenue Enquiry Centre, Tax Office or National Insurance Contributions office. Addresses are in your local telephone book under 'Inland Revenue'. Most offices are open to the public from 8.30am to 5.00pm, Monday to Friday, and some are also open outside these hours.

Social Security offices and Jobcentre Plus offices (part of the Department for Work and Pensions) and your library or Citizens Advice Bureau may also have copies of our leaflets.

You can also get most of our leaflets

by calling our Orderline on **0845 9000 404** between 8.00am and 10.00pm, seven days a week (except Christmas Day, Boxing day and New Year's Day)

- by fax on **0845 9000 604**
- by e-mail on **saorderline.ir@gtnet.gov.uk**
- by writing to **PO Box 37
St Austell
Cornwall
PL25 5YN**

Many leaflets are also available on the Internet at **www.inlandrevenue.gov.uk**

When our offices are closed, you can get general advice on Self Assessment by calling our Helpline, in the evenings or at weekends, on **0845 9000 444**.

Helpline and Orderline calls are charged at local rates.

These notes are for guidance only and reflect the tax position at the time of writing.
They do not affect your right of appeal about your own tax.

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