PENSION PAYMENTS

This Help Sheet gives you information to help you fill in Question 14 of your Tax Return. It:

- explains how retirement annuity relief (RAR) and personal pensions relief (PPR) are worked out, and
- gives you Working Sheets to help you calculate the amount of your claim for relief.

RETIREMENT ANNUITY RELIEF (RAR) AND PERSONAL PENSION RELIEF (PPR)

General

These reliefs:

- are normally given in the year in which the payment is made
- are only given against **relevant earnings** up to certain **percentage limits** (see notes below)
- cannot exceed relevant earnings in the year
- interact with each other for percentage limits purposes.

Up to 5% can be allowed for pension term assurance. Relief which is available to you but which you do not take up in the year is called 'unused relief'. Unused relief can be carried forward for up to six years.

Payments to retirement annuity contracts and personal pension schemes

Your personal contributions:

- qualify for relief in the year of payment
- can be carried back.

Your employer's contributions to a personal pension:

- count towards your percentage limit
- cannot exceed your percentage limit
- cannot be carried back to an earlier year
- cannot be claimed by you for relief.

Percentage limits on relief

The amount of your payments that qualify for relief cannot exceed certain percentage limits of your net relevant earnings.

— What are 'relevant earnings'?

If you are an employee, your relevant earnings are broadly your taxable earnings from a non-pensionable employment. But there are some exceptions, for example, income arising from shares does not count as relevant earnings for personal pensions.

If you are self-employed, your relevant earnings are your business profits. If you are not sure how to work out your relevant earnings, ask your Tax Office or tax adviser for help.

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— What are net relevant earnings?

Broadly, these are your relevant earnings *minus*:

- expenses if you are an employee, **or**
- capital allowances and losses if you are self-employed.

If you are not sure how to work out your net relevant earnings, ask your Tax Office or tax adviser for help.

The percentage limits for personal pensions and retirement annuity relief are shown in the following Tables.

Table 1: percentage of net relevant earnings

Age at 6 April	Personal pensions limit	Retirement annuity limit
35 or less	17.5%	17.5%
36 to 45	20.0%	17.5%
46 to 50	25.0%	17.5%
51 to 55	30.0%	20.0%
56 to 60	35.0%	22.5%
61 to 74	40.0%	27.5%

For personal pension payments, your earnings to which the percentage limits in Table I apply are subject to a further limit or 'cap'. So you need to refer to Table 2 to see how much of your earnings can count.

Table 2: 'cap' on net relevant earnings - personal pensions

Tax year	Amount	Tax year	Amount
1990-91	£64,800	1994-95	£76,800
1991-92	£71,400	1995-96	£78,600
1992-93	£75,000	1996-97	£82,200
1993-94	£75,000	1997-98	£84,000

Where the 'cap' in Table 2 applies and you hold two or more associated employments, one of which is pensionable, the earnings which can count may be reduced below the 'cap'. To find out how much of your earnings count, deduct the earnings from the pensionable employment from the 'cap' in Table 2 (see Example 3 on the next page). Net relevant earnings from non-associated sources are not affected and count in the usual way provided that, in aggregate, the 'cap' is not exceeded.

If you are not sure how to work out your net relevant earnings, ask your Tax Office or tax adviser for help.

Example 1: aged 53 on 6.4.96
Mark has a **retirement annuity contract.** He was born on 1.5.42 and has net relevant earnings of £90,000 in the tax year 1996-97. His percentage limit for RAR is 20%. This means Mark is entitled to £18,000 (£90,000 x 20%) relief for 1996-97. He made a payment of £18,000 which was tax relieved.

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Example 2: aged 58 on 6.4.96

Mary is a **personal pension holder** who was born on 28.10.37. Her details for the year 1996-97 are as follows:

• Net relevant earnings		£90,000
• Limited to the 'cap'		£82,200
• Percentage limit	35%	
• PPR entitlement (£82,200 x 35%)		£28,770
• Payments made		
- Employer	£8,000	
- Self	£10,000	

Relief allowed to Mary on £10,000

Unused relief* (£28,770 *minus* £18,000) = £10,770

* Unused relief can be carried forward for up to six years.

Example 3: aged 42 on 6.4.96

John is a **personal pension holder** who was born on 5.4.54. He has net relevant earnings of £50,000 from Company A in 1996-97. But he also earned £50,000 from its wholly owned subsidiary Company B and was a member of its pension scheme in that year. His net relevant earnings for 1996-97 are calculated as follows:

'Cap'		£82,200
minus earnings (Company B)		£50,000
Company A earnings restricted to		£32,200

The PPR calculation is:

• Net relevant earnings		£32,200
• Percentage limit	20%	
• PPR entitlement		£6,440
• Payments made		£6,440
• Relief allowed		£6,440

Calculating your relief

Step 1 **Check that you are eligible.**

You are eligible for relief if you are chargeable to UK tax on relevant earnings.

Step 2 **Check which type of pension policy you hold.**

If you took out your policy on or before 30 June 1988 it is a retirement annuity contract. If you made your arrangements on or after 1 July 1988 then you have a personal pension.

You need to know which type of pension you hold so that you can work out the correct relief from the Tables.

Step 3 **Check amounts of your payments.**

Work out the payments made from 6 April 1997 to 5 April 1998. Ask your pension scheme administrator(s) for these amounts if they are not shown on your annual statement(s).

Separate those paid to each type of pension policy (that is, retirement annuity contract or personal pension plan). Keep your receipts or contributions certificates.

Step 4 **Select the Working Sheets you need.**

Four different Working Sheets are included in this Help Sheet:

- use Working Sheet 1 if you pay to a retirement annuity policy or policies only
- use Working Sheet 2 if you pay to a personal pension arrangement or arrangements
- use Working Sheet 3 if you pay to at least one retirement annuity policy and you also pay to at least one personal pension arrangement
- Working Sheet 4 helps you to calculate and keep a record of your unused relief in the past six years. So if you always use your maximum relief in the year of payment you will not need to use Working Sheet 4.

When you have filled in the Working Sheet(s) you need to transfer figures to your Tax Return **but do not throw the Working Sheet(s) away.** Keep them together with your receipts or contributions certificates for your records.

Step 5 **Work out the amount of your relief**

Work out your net relevant earnings (see notes on page 1 to check if the personal pensions 'cap' applies to you). Select the appropriate percentage limit from Table 1. If you are claiming RAR and PPR read the section about 'Interaction' on page 3 and follow the steps in Working Sheet 3.

Carry back of payments

You can elect to carry back this year's payment or part of it to the last tax year, provided in that year you have relief available and relevant earnings to absorb it. Enter details.

Example 4

Sarah had unused relief of £1,000 in the year 1996-97. In 1997-98 she made a payment of £2,000 to her personal pension arrangement and elected to carry back £1,000 of it to 1996-97. (£1,000 will qualify for tax relief at the rates of tax for the year 1996-97).

If you had no net relevant earnings last tax year then you can carry back payments to the year before last but no further. Enter details.

Example 5

Sam had no net relevant earnings in 1996-97 but had unused relief of £500 in the year 1995-96. He made a payment of £3,500 to his retirement annuity contract in 1997-98 and elected to carry back £500 to 1995-96. (£500 will qualify for tax relief at the rates of tax for 1995-96).

If you are an employed earner, tell your pension provider that you wish to carry back your personal pension payment. Your pension scheme administrator will ask you to complete a special form.

Payment brought back

Under a carry back election you can bring back payments already made between 6 April and the date you complete your Tax Return for the year just ended provided you have relief available and relevant earnings to absorb it. For example, if you are completing your Tax Return for 1997-98 on 20 September 1998, you can carry back to 1997-98 payments made between 6 April 1998 and 20 September 1998. Enter the amounts. The relief will give rise to a tax credit in the year 1997-98 which will be set against tax due or repaid, as appropriate.

If you are an employed earner, tell your pension scheme administrator that you wish to carry back your personal pension payment. Your pension scheme administrator will ask you to complete a special form.

Carrying forward unused relief

If your relief in a tax year is less than your percentage limit for that year, the balance is unused relief. Unused relief can be carried forward for up to six years. It can be taken up in a later year once you have made a payment in excess of the percentage limit in that year.

Relief is given at the rates of tax in the year of payment. If you have unused relief for more than one year the earliest year is used first.

The total relief must not exceed your relevant earnings. Any relief not taken up within the six years is lost. Read the notes below on 'Interaction' if you have RAR and PPR.

Example 6

Katy has unused relief of £1,000 in the tax year 1992-93. She is entitled to PPR on £4,000 in 1995-96 by reference to her percentage limit. In 1995-96 she pays a contribution of £4,800. Katy receives tax relief on £4,800 in 1995-96. The balance of £200 (£1,000 *minus* £800) unused relief from 1992-93 can be carried forward up to 1998-99.

If you are an employee, tell your pension scheme administrator when your personal pension payments exceed your percentage limit. Your pension scheme administrator will ask you to complete a special form.

Use Working Sheet 4 to work out unused reliefs arising and taken up in the past six years.

INTERACTION OF RETIREMENT ANNUITY RELIEF AND PERSONAL PENSION RELIEF

How does it work?

Broadly, any RAR given in the year reduces your PPR. And similarly, any PPR given in the year reduces your RAR.

Why is the relief limited in this way?

The law on personal pensions replaces the retirement annuity law. However, people who had retirement annuities before the change in the law can continue to pay into these. **And they can have personal pensions as well**. So, to prevent a double helping of relief, each type of relief must take account of the other.

Are the limits the same for each type of relief?

The percentage limits for each vary (see Table 1on page 1). The limits for personal pensions are higher but the amount of earnings which count for personal pensions is capped (see Table 2 on page 1). This results in varying amounts of relief for contributions to retirement annuity contracts and personal pension plans.

Example 7: aged 37 on 6.4.94

Jack was born on 1.1.57. He has a retirement annuity contract and a personal pension arrangement. In 1994-95 he had net relevant earnings (NRE) of £20,000 and paid contributions of £3,000 to his retirement annuity and £1,000 to his personal pension. His percentage entitlements were 17.5% (RAR) and 20% (PPR) respectively. Relief was calculated as follows:

NRE £20,000	x	17.5%	=	£3,500
	x	20%	=	£4,000

	RAR		PPR
% limit	£3,500		£4,000
Amount paid	£3,000		£1,000
Relief allowed		£4,000	
Unused relief		Nil	

Had Jack paid to his retirement annuity **only** he would have been allowed £3,000 RAR with a balance of £500 (£3,500 *minus* £3,000) unused relief to carry forward for RAR and £1,000 (£4,000 minus £3,000) unused relief for PPR.

Had he paid to his personal pension **only** he would have been given PPR of £1,000 and had unused relief of £3,000 (£4,000 *minus* £1,000) to carry forward for PPR. His unused relief for RAR would have been £2,500 (£3,500 less £1,000).

Relief for payments to retirement annuity contracts is always given before relief for payments to personal pension arrangements. RAR reduces the PPR allowable in the year. Remember, RAR unused relief can be reduced by PPR. And similarly PPR unused relief can be reduced by RAR.

Follow the steps carefully in Working Sheet 3 to work out these reliefs. Keep a record of your unused relief in Working Sheet 4. If you have any difficulties working out your reliefs, ask your Tax Office or tax adviser for help.

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Working Sheet 4: retirement annuities and personal pensions - unused relief

Use this Working Sheet to calculate and record your unused relief.

Please keep this Working Sheet for your records. I might ask to see it later.

Use:

- RAR columns if you are a retirement annuity contract holder
- PPR columns if you are a personal pension scheme member
- both sets of columns if you are both a retirement annuity contract holder **and** a personal pension scheme member

This Working Sheet is designed to help you keep track of your unused relief over a six year period.

Count six years back from the current year or previous year if you are electing to carry back and start with the earliest year of those for which you have unused relief.

Enter the details for that year and any of the following years for which you have unused relief.

Copy the figures to the other Working Sheets as appropriate.

Year arising	Amount arising (£)	Year(s) used	Amount(s) (£) used		Balance (£) left		Last year in which relief can be used	Unused relief lost through time limit
			RAR	PPR	RAR	PPR		
	RAR							
	£							
	PPR							
	£							
	RAR							
	£							
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