

# Pensions Update

## No 153

29th March 2005

Please pass a copy of this Update to everyone in your organisation who needs to see it. The category of schemes covered by this Update is shown below. Italicised terms are explained in the glossary at the end.

<b>Category:</b>	Occupational Pension Schemes and Personal Pension Schemes
<b>Action:</b>	To note the increase to the permitted maximum under sections 590(3)(d) and 590C of the <i>Taxes Act</i> , and the <i>allowable maximum</i> under section 640A.
<b>Current Position:</b>	The permitted maximum under section 590(3)(d) of the <i>Taxes Act</i> is currently set at £100,000 and the permitted maximum – or earnings cap – under section 590C and section 640A is £102,000 for the 2004/2005 tax year.
<b>Summary:</b>	From 6 April 2005 the permitted maximum under section 590(3)(d) of the <i>Taxes Act</i> will be aligned with the permitted maximum under section 590C for 2005/2006; both will be £105,600.
<b>Enquiries:</b>	0115 - 974 1600 – occupational pension schemes enquiries 0115 - 974 1777 – personal pension schemes enquiries

## U 153: Permitted Maximum

### Background

1. The current tax rules for pension schemes have two permitted maximum figures. The first was introduced in 1987 and applies to certain members of occupational pension schemes. The second and more recognised permitted maximum - the earnings cap - was introduced in 1989 and applies to both occupational pension schemes and *personal pension schemes*.

### Occupational Pension Schemes - 1987 Permitted Maximum

2. The permitted maximum introduced in 1987 and initially set at £100,000 has been increased by Treasury order [SI 2005/No.723] to £105,600, with effect from 6 April 2005.

3. The increased 1987 permitted maximum applies to occupational pension schemes where, in calculating maximum approvable benefits on or after 6 April 2005:

- any member's *remuneration* in respect of a year beginning on or after 6 April 1987 that is used to calculate benefits exceeds £105,600 – if so, this means that member's *final remuneration* must be calculated by a 3 or more consecutive year average method unless £105,600 is used instead,

- *final remuneration* is calculated in respect of a member with *pre 1 June 1989 continued rights* – this means that in calculating the maximum lump sum retirement benefit for such a member that member's *final remuneration* must not exceed £105,600.

4. How the 1987 permitted maximum has practical effect in relation to the calculation of *final remuneration* is also set out in provisos (iii) and (vi) to the definition of *final remuneration*, found in the Glossary to *PN*.

### Overriding legislation

5. For occupational pension schemes that were approved before 23 July 1987, the 1987 permitted maximum is applied by a statutory override in paragraphs 5 and 6 of Schedule 23 of the *Taxes Act*. However, the Occupational Pension Schemes (Transitional Provisions) Regulations 1988 [SI1988/No 1436] disapplies the overriding legislation in certain circumstances.

### 1989 permitted maximum or earnings cap

6. The permitted maximum under section 590C of the *Taxes Act* has been increased by Treasury order [SI 2005/No.720] to £105,600 for the year of assessment 2005/2006.

7. The 1989 permitted maximum applies to all members of occupational pension schemes who do not have *continued rights*. More commonly called the earnings cap, it was initially set at £60,000 for the 1988/1989 and 1989/1990 years of assessment. Since then the amount has increased each year except 1993/1994. For the 2004/2005 year of assessment, the amount is £102,000.

### Personal Pension Schemes

8. Contributions to an approved *personal pension scheme* are limited to the greater of £3,600 and the amount from an age-related percentage of *net relevant earnings* (see paragraph 4.4 of *IR 76*). For the tax year 2005/2006, *net relevant earnings* will be subject to an earnings cap under section 640A of the *Taxes Act* of £105,600.

### Retirement Annuity Contracts

9. Maximum relievable contributions paid to a *retirement annuity contract* are based on an age-related percentage of net relevant earnings under section 623(6) of the *Taxes Act*. Such net relevant earnings are not subject to an earnings cap.

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## Glossary

**Allowable maximum** – see Glossary to *IR 76*

**Continued rights** - see Glossary to *PN*

**Final remuneration** – see Glossary to *PN*

**IR 76** – Personal Pension Schemes Guidance Notes, published by the Inland Revenue as IR76(2000)

**Net relevant earnings** – see Glossary to *IR 76*

**PN** – Occupational Pension Schemes Practice Notes, published by the Inland Revenue as IR12(2001) and sometimes also known as Practice Notes or PN

**Personal pension scheme** - see Glossary to *PN*

**Pre 1 June 12989 continued rights** – see Glossary to [PN](#)

**Remuneration** - see Glossary to [PN](#)

**Retirement annuity contract** - see Glossary to [PN](#)

**Taxes Act** – Income and Corporation Taxes Act 1988

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