

Carry Forward

Carry forward rules were introduced from 6 April 2011 which allows unused Annual Allowance to be carried forward from the three previous tax years and added to the Annual Allowance in the current tax year.

Annual Allowance

The Annual Allowance is the maximum amount of pension savings (i.e. contributions, benefit accrual), per tax year, an individual can have with the benefit of tax relief. This includes pension savings made by, or on behalf of, the individual such as by their employer. If that limit is exceeded, the excess will be subject to an Annual Allowance charge at the individual's marginal rate for earned income.

From 6 April 2023, the Annual Allowance increased to £60,000 (previously £40,000 for tax years 2014/15 to 2022/23).

Tapered Annual Allowance (TAA)

Where the TAA applies in a tax year (i.e. due to being a 'high income' individual), any unused Annual Allowance from the three previous tax years may be used to increase the TAA. If carrying forward from a tax year in which the TAA applies, it's any unused TAA that can be carried forward.

Since 6 April 2023, a 'high-income' individual is someone whose "Adjusted Income" (broadly taxable income plus employer pension contributions) for the tax year exceeds £260,000 and whose "Threshold Income" (broadly taxable income less personal contributions) for the tax year exceeds £200,000. Both limits need to be breached for tapering to apply.

Money Purchase Annual Allowance (MPAA)

Where the MPAA applies (i.e. an individual has 'flexibly accessed' their money purchase benefits), carry forward cannot be used to increase the MPAA.

However, an individual who is subject to the MPAA can still accrue benefits in a defined benefit scheme up to the standard Annual Allowance (£60,000 from 6 April 2023), less any money purchase contributions within the MPAA, before an Annual Allowance tax charge applies.

Pension Input Amount

To calculate the amount of pension savings for the current and previous three tax years, it is necessary to know the total pension input amount for a pension input period ending in each tax year.

For money purchase arrangements (e.g. personal pensions), the pension input amount is the total of all contributions paid during the pension input period.

For defined benefit arrangements (e.g. final salary schemes), the pension input amount is calculated as the increase in value of the accrued benefits over the pension input period.

Carry Forward Rules

The key points of carry forward are:

- The individual must have been a member of a registered pension scheme in the tax year from which the unused Annual Allowance is carried forward. There is no requirement for the member to have paid any contributions or had benefit accrual during those years.
- The Annual Allowance in the current tax year must be used first before utilising carry forward from previous years.
- The earliest available unused Annual Allowance (of the three previous tax years) must be used first.
- Any contribution for carry forward does not need to be made to the same registered pension scheme that an individual was a member of in the previous years.
- Personal contributions need to be within 100% of the individual's relevant UK earnings for tax relief purposes in the actual year the contribution is paid.
- Employer contributions can also use carry forward of unused Annual Allowance. These contributions will be subject to the HMRC 'wholly and exclusively' rules for corporation tax relief purposes.



Transitional Rules

Pre and Post Alignment Tax Year 2015/16

Under transitional rules that were put in place to align pension input periods with the tax year by 6 April 2016, the 2015/16 tax year was split into two periods;

- the pre-alignment tax year, 6 April 2015 to 8 July 2015, which has an Annual Allowance of £80,000 (£20,000 if subject to the MPAA), and
- the post-alignment tax year, 9 July 2015 to 5 April 2016, which effectively has an Annual Allowance of nil but had the ability to carry forward up to £40,000 (£10,000 if subject to the MPAA), of unused Annual Allowance from the pre-alignment tax year.

This was the only situation where carry forward was available for the MPAA.

Carry forward to the pre-alignment tax year (where the MPAA does not apply)

If pension savings in all pension input periods ending on or after 6 April 2015 and on or before 8 July 2015 exceeded £80,000, any unused Annual Allowance from tax years 2012/13, 2013/14 and 2014/15 could have been carried forward (where eligible) to cover any excess.

Carry forward to the post-alignment tax year (where the MPAA does not apply)

Where the individual was a member in the pre-alignment tax year, any unused allowance from the pre-alignment tax year, up to a maximum of £40,000, could have been carried forward to the post-alignment tax year. Unused Annual Allowance from tax years 2012/13, 2013/14 and 2014/15 could have been carried forward (where eligible) to cover any excess in the post-alignment tax year.

Carry forward from the 2015/16 tax year to future years

The maximum amount that can be carried forward is effectively £40,000 less (i) any pension input in the post-alignment tax year, and (ii) any pension input in excess of £40,000 in the pre-alignment tax year.

Transitional Years 2008/09 to 2010/11

The carry forward rules operate differently where the carry forward was in respect of the three 'transitional' carry forward tax years of 2008/09, 2009/10 and 2010/11.

In these cases each year will be assessed on its own and any unused Annual Allowance will not be set against pension input in excess of the Annual Allowance in a subsequent carry forward tax year.

Key point summary

For individuals who are high earners and likely to be most impacted by the Annual Allowance, the opportunity to sweep up earnings from the three previous tax years may be a welcome retirement funding opportunity.

Carry forward is **NOT** available for contributions to a money purchase scheme where an individual has triggered the MPAA.

This represents Zurich's understanding of HMRC regulations governing carry forward. This is subject to change and Zurich does not accept responsibility for any action taken or refrained from, by any person relying on this information.

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