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.

Annual Allowance
The Annual Allowance is the maximum amount of tax relief a member can receive on contributions/pension input paid by or on behalf of the member in a tax year. If that limit is exceeded, the excess will be subject to an Annual Allowance charge at the individual’s marginal rate for earned income.

Money Purchase Annual Allowance (MPAA)
From 6 April 2015, the MPAA was introduced. This reduces the Annual Allowance from £40,000 to £10,000 in certain circumstances. The MPAA only applies to money purchase contributions. An individual who triggers the MPAA can still fund a defined benefit scheme up to the normal £40,000 Annual Allowance.

Unused MPAA cannot be carried forward. Carry forward also cannot be used to increase the MPAA but can still be used to increase the Annual Allowance for defined benefit arrangements.

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 (ie personal pensions), the pension input amount is the total of all contributions paid during the pension input period.

For defined benefit arrangements (ie 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 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 be used for carry forward and are therefore subject to the 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 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) - unused Annual Allowance (where eligible) from the pre-alignment tax year of up to the lower of (i) the unused Annual Allowance by reference to the total Annual Allowance of £80,000, and (ii) £40,000 could have been carried forward (where eligible) 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 – when carrying forward unused Annual Allowance from the 2015/16 tax year, it is always only from the pre-alignment tax year which is the lower of (i) the unused Annual Allowance by reference to the total Annual Allowance of £80,000, and (ii) £40,000.

**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 funding for retirement opportunity.

Carry forward is **NOT** available where an individual has triggered the MPAA.