TECHNICAL NOTE
CARRY FORWARD

Scottish Widows Platform

For Professional Advisers only

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 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.

Money Purchase Annual Allowance (MPAA)

From 6 April 2015, the MPAA was introduced. This reduced the Annual Allowance, in certain circumstances, to the following:

- £10,000 for 2023/24

The MPAA only applies to money purchase contributions. An individual who triggers the MPAA can still accrue benefits in a defined benefit scheme up to a value of £60,000 a year, less any money purchase contributions within the MPAA, before an annual allowance tax charge applies.

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

For defined benefit arrangements (eg 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.
- Thereafter, 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.

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 where an individual has triggered the MPAA.

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