

Carry forward and save more in your pension

The pension 'carry forward' rules explained

For most people, the maximum that can be contributed to their pension in a tax-efficient way is limited to £40,000 per tax year. However, you may be able to contribute more than this tax year by 'carrying forward' unused annual allowance from in a previous years.

IN THIS GUIDE WE COVER:

- How you can potentially contribute more than £40,000 to your pension in a tax-year and still benefit from full tax relief
- How to work out how much unused annual allowance you can carry forward from previous tax years
- What you should do if you intend to take advantage of the carry forward rules
- The importance of checking you have correctly carried forward any unused allowances when calculating whether an annual allowance tax charge is payable (you wouldn't want to pay tax if you didn't have to would you?)

How much can I normally pay in to my pension each year?

The amount that can be saved into your pensions each tax-year while still benefiting from tax relief on your contributions, is limited to the pension annual allowance (AA). This is £40,000 for the 2020/21 tax year. The AA applies across all your pension savings, not per scheme and applies to contributions made by you, an employer and even those made on your behalf by someone else.

If the contributions to your pensions exceed the AA, a tax charge ('the annual allowance charge') may become payable. This effectively claws back any excess tax relief given at source.

However, as well as keeping to the AA limit, tax relief will only be applicable where you have taxable earnings that match or exceed the total amount contributed - so tax relief cannot be claimed on contributions of more than 100% of what you earn in any tax year.

Please note the value of any tax benefits will depend on individual circumstances and all tax rules may change.

Since 6 April 2016, the AA has remained at £40,000 for most people. However this may be reduced for higher earners (those earning £100,000 or more from 6 April 2016 and £240,000 or more from 6 April 2020). You can find out more about this in our **tapered annual allowance** guide which can be found here: [fidelity.co.uk/allowances](https://www.fidelity.co.uk/allowances)

Please also note that if you have already started accessing your pension and are therefore subject to what is called the **money purchase annual allowance (MPAA)** you will not be able to use carry forward to pay into a money purchase pension arrangement. This applies from the date in the tax year you first trigger the MPAA and to every subsequent tax year. If you are an active member of a final salary pension or defined benefit pension scheme carry forward could be used to make contributions to those pensions.

You can find out more about the MPAA here: [fidelity.co.uk/pension-allowances](https://www.fidelity.co.uk/pension-allowances)

If you have exceeded the standard or tapered AA, before working out the tax charge you need to pay on the excess, you should first ensure you have carried forward any unused AA you have available. Where this is possible, this will reduce the amount you have exceeded the allowance by and consequently will reduce the amount of any charge potentially payable.

Can I invest more than the AA?

Potentially, yes. If you contributed less than your AA to your pensions in any of the previous three tax years, you may be able to carry forward your unused AA to pay in more than your AA in this tax year (and still benefit from the tax relief). This is known as 'carry forward'. The AA was £40,000 in 2019/20, in 2018/19 and 2017/18 tax years.

Special conditions applied to the 2015/16 tax year and, should you need to carry forward from that tax year, further details can be provided.

Who is mostly likely to benefit from carry forward?

Anyone with earnings over the AA can potentially benefit from carrying forward any unused AA. However, the rule may be particularly useful in the following circumstances:

- Where your earnings vary widely from year to year
- If your expenses were unusually high in a particular year meaning you were unable to contribute much to your pension in a previous year
- If you have had a particularly good year at work and received, for example, a bonus and you want to put some or all of it away for your retirement
- If you have significant earnings and are looking to reduce your annual allowance charge bill
- If you are subject to the **tapered annual allowance**

If you have triggered the MPAA, carry forward cannot be used to make higher contributions than the MPAA amount to any money purchase pensions you own.



Are there any carry forward rules I need to be aware of?

You can potentially carry forward any unused AA from the three previous tax years if you meet the conditions listed below:

1. You must have paid in the maximum amount to your pension(s)* in the current tax year (this begins on 6 April 2020 and runs through to 5 April 2021).
2. You must earn at least the amount you wish to contribute in the tax year you are making the investment (so if you, for example, want to make total contributions of £100,000 in the 2020/21 tax year, you must earn at least £100,000 in this tax year). This would not apply if your employer is making the contribution on your behalf.
3. You must have been a member of a UK-registered pension scheme (this does not include the State Pension) in each of the tax years from which you wish to carry forward from (you do not need to have paid any money in).
4. You must use any unused AA from the earliest year first (you can only go back three years) and can only use it once. Hence, it can only be used once and if fully used for a previous tax year, cannot be used a second time.
5. If you are subject to a tapered annual allowance, you need to measure any unused AA against the tapered allowance for each given year (which may change depending on your adjusted income). You can find more information on the tapered annual allowance here:

[fidelity.co.uk/allowances](https://www.fidelity.co.uk/allowances)

*Pensions being all the pensions you are a member of and remember to include any benefits accrued in an active defined benefit pension (including final salary and career average schemes) – your provider can give you details. Bear in mind that contributions made by an employer or somebody else on your behalf, also count towards your AA.



How carry forward works in practice.

David earns £105,000 a year and has contributed the following amounts to his pension over the last few years. His unused AA is also shown.

Year	Annual Allowance	Pension contributions	Unused Annual Allowance
2017/18	£40,000	£20,000	£20,000
2018/19	£40,000	£35,000	£5,000
2019/20	£40,000	£15,000	£25,000
2020/21	£40,000	£15,000	£25,000

In total, David has £50,000 of unused AA from the previous three years and £25,000 left from the current year. He can therefore make a further gross contribution of up to £75,000 in the 2020/21 tax year. With the £15,000 he has already saved, his total contributions for the year for which he could receive tax relief on, could be as much as £90,000. This amount is less than he earns and so he is eligible for tax relief on the full amount.

Tapered Annual Allowance

Nicky earned £175,760 in the 2019/20 tax year and expects to earn £258,480 in the 2020/21 tax year. Her employer made contributions of **£15,000** to her pension in the 2019/20 tax year and is expected to do the same in 2020/21. Nicky wants to make a large contribution early in the tax year and wants to know the maximum she can contribute before a potential AA charge is payable. Nicky used her full allowance in the 2017/18 and 2018/19 tax years. She contributed **£2,000** in the 2019/20 tax year.

She understands that because of the size of her earnings and the amount of pension contributions from her employer, she will be subject to the tapered AA in the 2020/21 tax year and was also subject to one in the 2019/20 tax year. She calculates her allowance was £19,620 in the 2019/20 tax year:

Earnings (Threshold)	Employer contributions	Adjusted income	Amount over adjusted income limit	Reduction from taper	AA after reduction
£175,760	£15,000	£190,760	£40,760 (£190,760 - £150,000)	£20,380 (£40,760/2)	£19,620 (£40,000 - £20,380)

She then works out her allowance for 2020/21 as

Earnings (Threshold)	Employer contributions	Adjusted income	Access over Adjusted income limit	Reduction from taper	AA after reduction
£258,480	£15,000	£273,480	£33,480 (£273,480 - £240,000)	£16,740 (£33,480/2)	£23,260 (£40,000 - £16,740)

She then calculates the amount she can carry forward as follows:

Year	Annual Allowance available	Pension contributions	Unused Annual Allowance to carry forward
2019/20	£19,620	£17,000 (£15,000 employer + £2,000 personal)	£2,620 (£19,620 - £17,000)

Therefore, Nicky knows that she can personally contribute £10,880 (£23,260 + £2,620 - £15,000) in the 2020/21 before exceeding the AA once this is added to her employer's contribution of £15,000 and before she may be subject to AA tax charge.

Is there a way to check whether I can carry forward any unused allowances?

The government (HMRC) has a handy online calculator which helps you work out whether you have any AA you can carry forward. Simply search www.gov.uk for **"Pension annual allowance tool"**

What should I do if I want to take advantage of the carry forward rules?

Step 1 - Check for unused AA

The first step is to check if you have any unused AA you can carry forward.

The best way to do this is to obtain a pension savings statement for all pension plans you have been registered with in the current and three former tax years. These will confirm the contributions that have been made to all of your pensions, thereby providing you with the information you need to complete your calculations. These can usually be obtained by phoning your pension provider.

Next, you need to look back over the three previous tax years to assess if you have any unused AA in those years. Don't forget that if you were subject to the tapered annual allowance in a previous tax year (from 2016/17 and subsequent tax-years), the amount available to carry forward from that tax year will be the difference between total contributions and your tapered allowance. If you exceeded the AA in one of the three previous tax years, you may need to go back a further three tax years to assess the impact of this.

Step 2 - Apply the unused allowance

To do this, you need to work forwards from and use the earliest of the relevant tax years in which you have any unused AA. Doing this will reduce the level of your pension contributions that are in excess of the AA in the tax year you are assessing.

If you have exceeded an AA (not the MPAA) or been subject to a tapered AA in a previous tax year, you should check the position up to and including the relevant period.

Note, these calculations can be quite complicated even for professionals such as ourselves so if you are unsure of how carry forward, and the AA or tapered AA works, and how it may relate to you, we strongly suggest that you speak to an authorised financial adviser or a tax specialist. The benefits of doing so, could far outweigh any potential costs for the service.

Step 3 - Relying on the carry forward rules

You do not need to notify HMRC if you want to make use of any unused AA from a previous tax year. What's more, you don't have to show this on your tax return **if no tax charge is due**. If carry forward has reduced the excess amount above the AA, the reduced excess amount **MUST** be input on your self assessment. However, we always recommend you keep a record of your calculations in case this is required in the future. For example, HMRC may require you to outline why a reduced or no charge is payable in circumstances where their records indicate (based on information submitted by you and any of your pension providers) you have exceeded an AA, but not paid an AA charge. It will also help you when you come to calculate any potential carry forward amounts in future years.

Remember: it is your responsibility to track total pension contributions paid in a tax year relative to the AA. If you exceed the AA across all your contributions, you may have to pay an 'annual allowance tax charge' on the excess. The rate of this AA charge will generally be linked to the highest rate of Income Tax you pay.

The information in this guide is correct as at 06 April 2020.



HOW CAN FIDELITY HELP?



If you would like to discuss your pension account, please call the Pensions Service Centre on 0800 368 6868.

You can also visit [fidelity.co.uk/pensions](https://www.fidelity.co.uk/pensions) or speak to an authorised financial adviser.

Workplace Investing



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