

Save more
into your
pension with
carry forward.

LET'S TALK HOW.

The pension 'carry forward' rules explained

The maximum many savers can contribute 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 before the end of the tax year by 'carrying forward' unused annual allowance from 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, including the special carry forward rules which apply for the 2015/16 tax year
- 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 2018/19 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 annual allowance 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 annual allowance has remained at £40,000 for most people. However this may be reduced for higher earners (those earning over £110,000). You can find out more about this in our [tapered annual allowance](#) guide, which can be found here: [fidelity.co.uk/pension/tapered-annual-allowance](https://www.fidelity.co.uk/pension/tapered-annual-allowance)

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

If you have exceeded the standard or tapered annual allowance, before working out the tax charge you need to pay on the excess, you should first ensure you have carried forward any unused annual allowance 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.

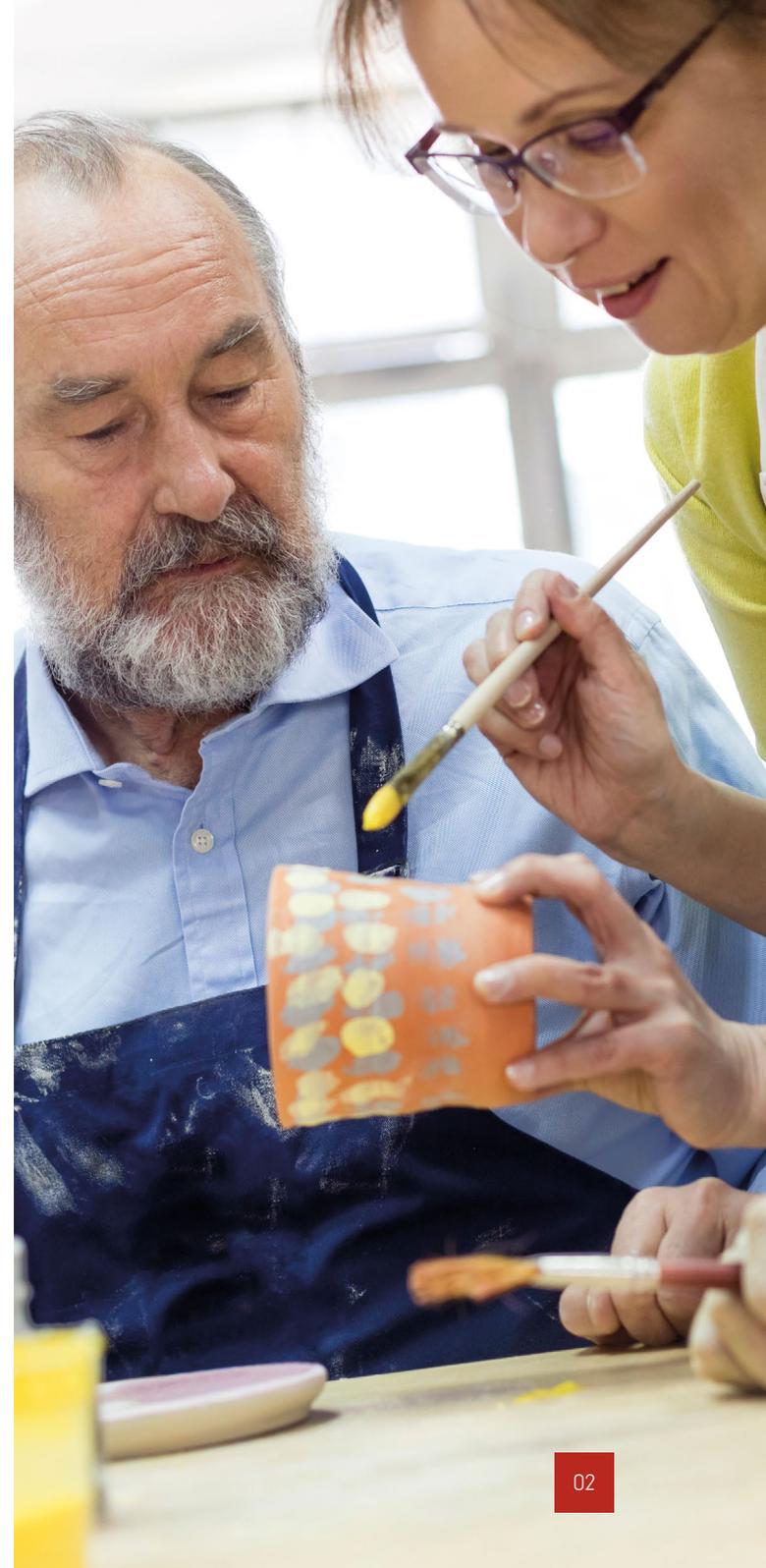
Can I invest more than the annual allowance?

Potentially, yes. If you contributed less than your annual allowance to your pensions in the previous three tax years, you may be able to carry forward your unused annual allowances to pay in more than your annual allowance in this tax year (and still benefit from the tax relief). This is known as 'carry forward'. The annual allowance was £40,000 in 2017/18 and 2016/17 tax years but it was £80,000 for the 2015/16 tax year due to special rules (although only a maximum of £40,000 is available to carry forward – details on the next page)

Who is mostly likely to benefit from carry forward?

Anyone with earnings over the annual allowance can potentially benefit from carrying forward any unused annual allowance. 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 instance, a large 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 tax bill
- If you are subject to the [tapered annual allowance](#)



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

You can potentially carry forward any unused annual allowances 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 2018 and runs through to 5 April 2019).
2. You must earn at least the amount you wish to contribute in the tax year you are making the investment (so if you want to make total contributions of £100,000 in the 2018/19 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 annual allowance from the earliest year first (you can only go back three years) and can only use it once.
5. If you are subject to a tapered annual allowance, you need to measure any unused annual allowance 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/pension/tapered-annual-allowance](https://www.fidelity.co.uk/pension/tapered-annual-allowance)

*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 annual allowance.



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 annual allowance is also shown.

| Year | Annual Allowance | Pension contributions | Unused Annual Allowance |
|----------------------|------------------|-----------------------|-------------------------|
| 2015/16 [†] | £40,000 | £20,000 | £20,000 |
| 2016/17 | £40,000 | £20,000 | £20,000 |
| 2017/18 | £40,000 | £35,000 | £5,000 |
| 2018/19 | £40,000 | £15,000 | £25,000 |

In total, David has £45,000 of unused annual allowances from the previous three years and £25,000 left from the current year. He can therefore make a further gross contribution of up to £70,000 in the 2018/19 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 £85,000. This amount is less than he earns and so he is eligible for tax relief on the full amount.

[†]Special rules were in operation in the tax year 2015/16 which we explain below.

What were the special rules for 2015/16?

Due to an announcement made in the Summer Budget 2015, the way pension contributions were measured for the 2015-16 tax year was different. The tax year was split into two periods – ‘pre-budget’ and ‘post-budget’ – which effectively doubled the annual allowance to £80,000 for the tax year as a whole. However, the maximum that can be carried forward is still only £40,000, as we explain.

This change has made calculating your unused annual allowance for this tax year somewhat complicated. For the pre-budget mini tax year, which ran from 6 April – 8 July 2015, your allowance was £80,000. For the post-budget mini tax year, which started on 9 July 2015, your allowance was the lower of:

| Tax year | Annual Allowance | Carry Forward available |
|---------------------------------|------------------|--|
| 2015/16 Pre-budget tax year | £80,000 | £80,000 less contributions in this period subject to maximum of £40,000. |
| 2015/16 Post-budget tax year | Nil | Amount from pre-budget period (max £40,000) less contributions in this period. |



How the double allowance works in practice

Frank is self-employed and made a contribution of £60,000 into his pension on 30 April 2015.

| Year | Annual Allowance available | Pension contributions | Unused Annual Allowance | Available to carry forward |
|-----------------------|----------------------------|-----------------------|-------------------------|----------------------------|
| 2015/16 (pre-budget) | £0 - £80,000 | £60,000 | £20,000 | £20,000 |
| 2015/16 (post-budget) | £0 - £20,000 | Nil | £20,000 | £0 |
| 2016/17 | £0 - £40,000 | £25,000 | £15,000 | £15,000 |
| 2017/18 | £0 - £40,000 | £0 | £40,000 | £40,000 |
| 2018/19 | £0 - £40,000 | £40,000 | £0 | £0 |

As Frank made a pension contribution of £60,000 in the pre-budget mini tax year, his allowance for the post-budget mini tax year was £20,000 (his allowance was the lower of £80,000 less his pre-budget contributions or £40,000).

Because Frank made no further pension contributions in the post-budget mini tax year, he still has unused annual allowance of £20,000. He was therefore able to carry this forward for use in future tax years.

With the unused annual allowance of £20,000 from 2015/16 and £15,000 from 2016/17, Frank could pay a total of £75,000 into his pension over the course of the 2018/19 tax year without incurring an annual allowance tax charge. This is £35,000 more than would normally be the case.

However, if Frank had contributed £40,000 or less into his pension on 30 April 2015, he would have been able to carry forward £40,000 of unused allowance.

This is because, the allowance for the full 2015/16 tax year was £80,000 and where contributions did not exceed £40,000 in the pre-budget mini tax year, £40,000 was available in the post-budget tax year. You then carry forward any balance of £40,000 minus contributions in the post budget mini tax year.

This example assumes Frank is not subject to the tapered annual allowance in any of the relevant tax years.

Tapered Annual Allowance

Nicky earns £160,000 in the 2017/18 tax year and expects to earn the same in the 2018/19 tax year. Her employer made contributions of £15,000 to her pension in the 2017/18 tax year and is expected to do the same in 2018/19. Nicky wants to make a large contribution early on in the tax year and wants to know the maximum she can contribute before a potential annual allowance charge is payable. Nicky used her full allowance in the 2015/16 and 2016/17 tax years. She contributed £10,000 in the 2017/18 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 annual allowance in the 2018/19 tax year and was also subject to it in the 2017/18 tax year. She calculates that her allowance is £27,500 for both years.

| Earnings | Employer contributions | Adjusted income | Amount over adjusted income | Reduction from taper | AA after reduction |
|----------|------------------------|-----------------|----------------------------------|------------------------|--------------------------------|
| £160,000 | £15,000 | £175,000 | £25,000 (£175,000 - £150,000) | £12,500 (£25,000/2) | £27,500 (£40,000 - £12,500) |

Nicky knows therefore that she can personally contribute £12,500 in the 2018/19 before exceeding the AA once this is added to her employer's contribution of £15,000.

She then calculates the amount she can carry forward as follows

| Year | Annual Allowance available | Pension contributions | Unused Annual Allowance | Available to carry forward |
|---------|----------------------------|--|-------------------------|----------------------------|
| 2017/18 | £0 - £27,500 | £25,000 (£15,000 employer + £10,000 personal) | £2,500 | £2,500 |

Nicky can therefore use carry forward to make personal contributions of £15,000 before she may be subject to annual allowance 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 annual allowance you can carry forward. Simply visit [hmrc.gov.uk/tools/pension-allowance/](https://www.hmrc.gov.uk/tools/pension-allowance/)

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

Step 1 - Check for unused annual allowance

The first step is to check if you have any unused annual allowance 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 annual allowance 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 annual allowance 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 annual allowance. Doing this will reduce the level of your pension contributions that are in excess of the annual allowance in the tax year you are assessing.

Note, these calculations can be quite complicated even for professionals such as ourselves so if you are at all unsure of how carry forwards and the annual allowance or tapered annual allowance 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 annual allowance 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 annual allowance, the reduced excess amount will still need to be input on your self assessment. However, we always recommend you keep a record of your contributions in case this is required in the future. HMRC for example 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 annual allowance, but not paid an annual allowance 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 your pension contributions relative to the annual allowance. If you exceed the annual allowance across all your contributions, you may have to pay an 'annual allowance tax charge' on the excess. The rate of this annual allowance 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 2018.



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.

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