

RPSM06108010 - Technical Pages: Annual allowance: From 6 April 2011: Calculating the tax charge: Carry forward

Carrying forward unused annual allowance from earlier years

[s228A FA04]

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The three year carry forward rule

If an individual has a **pension input amount** of more than £50,000 for a tax year from 2011-12 onwards they may still not be liable for an **annual allowance charge** for that year. They can carry forward any **annual allowance** that they have not used in the previous three tax years to the current tax year. This amount of unused annual allowance can then be added to the current year's annual allowance. This will give them a higher amount of available annual allowance to off-set against that year's pension input amount.

The three year carry forward rule allows an individual to make occasional large amounts of pension savings without having to pay the annual allowance charge.

For example, if the individual is self-employed and in one year makes a large profit, they could make pension contributions that are larger than normal and are also above the annual allowance level. This will depend, of course, on the amount of contributions that they have been paying in **pension input periods** that end in the previous three tax years and the amount of unused annual allowance that they have available to carry forward.

For a member of a **defined benefits arrangement** a large pay increase, for example following promotion, could make their pension input amount a lot bigger than usual. The three year carry forward rule means that such a one-off increase in their pension input amount is less likely to produce an annual allowance charge.

When can a member carry forward unused annual allowance?

[s238A(3) & (4) FA04]

To carry forward unused annual allowance from a previous year, the individual must have been a member of a registered pension scheme at some point in the earlier tax. So, if the individual was a member of a **registered pension scheme** but, in one particular year, did not have a pension input amount for that year then they can carry forward an annual allowance of £50,000 from that year. If they were not a member of a registered pension scheme then they will not have unused annual allowance to carry forward from that year.

A member includes either an **active member**, a **pensioner member**, a **deferred member** or a **pension credit member** of a pension scheme. If, for example, in the tax year 2010-11 the member was a deferred member with no accrual anywhere, but had past deferred pension rights in a registered pension scheme only, the member would have unused annual allowance of £50,000 for that tax year.

As the requirement is to have been a member of a registered pension scheme specifically at some point in a tax year, it is possible to have an unused annual allowance to carry forward even where there is no pension input amount for that tax year. For example, an individual joins a registered pension scheme for the first time on 1 June 2009 with a first pension input period of 1 June 2009 to 1 June 2010. The first tax year that they will have a pension input amount is 2010-11 but as they were a member of a scheme in the 2009-10 tax year they will have a deemed unused annual allowance of £50,000 to carry forward.

The effect of carry forward

If the individual's pension input amount for the tax year is less than their available annual allowance there will be no annual allowance tax charge. If an individual's pension input

amount is more than their available annual allowance then they will be liable to the annual allowance charge on the amount over their available annual allowance.

Where an individual has unused annual allowance that they want to use to set off against an annual allowance charge for a later year, they do not have to include this on their Self Assessment tax return for the year in which the unused allowance arose or for the year that they want to set this off against an annual allowance charge.

Example 1

Raj is a self employed plumber. In the previous three years Raj has made contributions of £40,000, £20,000 and £30,000 to his pension arrangement. Raj has had a good trading year and wants to use part of his higher profits to increase his pension fund.

In the past three years Raj has not used all his £50,000 annual allowance. He has £60,000 unused annual allowance that he can carry forward to this tax year. Raj can make a contribution of £110,000 without having to pay the annual allowance charge.

Example 2

Rose is an NHS nurse and her pension scheme will provide a pension of 1/80th final pay for each year of service plus a lump sum of 3 x her pension. Her level of pay and length of service mean that her pension saving amount is normally between £8,000 and £9,000 each year.

Rose gets promoted to ward sister and as a result gets a £6,000 pay rise. Because of her large pay rise and because this means that her pension is based on this pay for all of her years of service, Rose's pension saving for this year is £55,000. This is more than the £50,000 annual allowance.

As Rose has not used all her annual allowance in the last three tax years she can carry forward her annual allowance. Rose has unused annual allowance of over £120,000 to carry forward. This means that Rose does not have any annual allowance charge on her unusually high pension savings of £55,000.

How available annual allowance is used up

[s228A(6) & (7) FA04]

There is a strict order in which available annual allowance must be used-up. The annual allowance for the current tax year should be used first. The unused annual allowance from earlier years is then used, beginning with available annual allowance from the earliest tax year first.

If one of the previous three years has an input amount of more than the annual allowance then that excess is treated as using up any amount of available annual allowance from the preceding year(s) first and this will reduce the available annual allowance to be carried forward to the current year.

However, the position for the tax years 2008-09, 2009-10 and 2010-11 (where a deemed annual allowance of £50,000 applies for this purpose) is different when the pension input amount is more than £50,000 in 2009-10 and/or 2010-11 and there is available annual allowance from a preceding year(s). [RPSM06108030](#) has more details.

Example 3

Sybille has total pension savings of £65,000 for the 2014-15 tax year. The annual allowance is £50,000.

In the previous three tax years her pension input amounts were:

2013-14 - £35,000

2012-13 - £30,000

2011-12 - £25,000

If the annual allowance for each of those years was £50,000 Sybille has unused annual allowance from those three tax years:

2013-14 - £15,000

2012-13 - £20,000

2011-12 - £25,000

This means Sybille has £60,000 unused annual allowance to carry forward to 2014-15.

Together with the £50,000 annual allowance for the 2014-15 tax year, Sybille can have pension saving of £110,000 without the annual allowance charge being due.

Sybille's pension input amount for the 2014-15 tax year is less than her available annual allowance. She does not have to pay an annual allowance charge.

Sybille has used up the £50,000 annual allowance for the current tax year and £15,000 unused annual allowance from three years ago i.e. 2011-12. Although she still has £10,000 unused annual allowance from three years ago she cannot carry this forward to the next tax year. You can only carry forward unused annual allowance from the last three years and next year, i.e. 2014-15, the £10,000 unused amount will be from four years ago and so will be out of time and not available.

Sybille has £35,000 unused annual allowance that she can carry forward to next tax year. If the annual allowance in the next tax year is still £50,000 she will be able to have a pension input amount of £85,000 and still not have any annual allowance charge.

Example 4

Sam's total pension input amount for 2014-15 is £52,000. This is £2,000 more than the annual allowance of £50,000. Sam will have an annual allowance charge on £2,000 if she has no available annual allowance to carry forward from earlier years. Her total pension input amounts for those years are:

2013-14 - £54,000

2012-13 - £44,000

2011-12 - £49,000

Sam has £1,000 unused annual allowance from 2011-12 and £6,000 from 2012-13. Sam's total pension input amount for 2013-14 is more than the annual allowance so she has no available annual allowance to carry forward from that year.

Sam can only carry forward unused annual allowance if it has not been used up by a pension input amount that is more than the annual allowance in a later tax year. As Sam's total pension input amount for 2013-14 is more than £50,000 this will reduce the amount of annual allowance she can carry forward. The £4,000 pension input amount that is more than the 2013-14 annual allowance will use up Sam's available annual allowance from earlier years as follows:

2011-12 - £1,000

2012-13 - £3,000

Sam has £3,000 available annual allowance to carry forward to 2014-15. So, in 2014-15 Sam can have a total pension input amount of £53,000 before she has to pay an annual allowance charge. Sam's actual pension input amount of £52,000 is less than this so she has no annual allowance charge for 2014-15. She also has £1,000 annual allowance available from 2012-13 to carry forward to 2015-16.

In 2015-16 Sam's total pension input amount is £55,000. This is £5,000 more than the annual allowance of £50,000. Sam has £1,000 available annual allowance to carry forward from the previous three years so she will have an annual allowance charge on £4,000.

RPSM06108020 - Technical Pages: Annual allowance: From 6 April 2011: Calculating the tax charge: Calculating unused annual allowance

Calculating the amount of unused annual allowance to carry forward

[s228A FA04]

Unused **annual allowance** can be carried forward automatically and does not need to be notified by the individual to HMRC or the scheme administrator. An individual does not need to show this on their tax return if their unused annual allowance means that an annual allowance tax charge is not due for a particular tax year.

To see if an individual has an **annual allowance charge** they need to take the following steps:

Work out the **total pension input amount** for the tax year.

The individual will need to add together the **pension input amounts** for all **arrangements** that they have under **registered pension schemes**, and relevant overseas schemes (see [RPSM06105020](#) – ‘Who do the annual allowance rules apply to?’).

The calculation of the pension input amount will vary depending upon the type of arrangement. The following show how this is calculated in:

- **Cash balance arrangements** ([RPSM06107040](#))
- **Other money purchase arrangements** ([RPSM06107020](#))
- **Defined benefits arrangements** ([RPSM06107030](#))
- **Hybrid arrangements** ([RPSM06107050](#))

If a member's pension input amount in a single scheme is more than the annual allowance for the tax year, i.e. £50,000 for 2011-12, the **scheme administrator** should automatically tell the member the total value of their pension input amount for all arrangements under that scheme over the **pension input period** (PIP) ending in the tax year. A member can also ask their pension scheme to provide that information. [RPSM06107500](#) explains the scheme administrator's responsibility to provide a member with information about their pension input amount.

Is the total pension input amount more than the annual allowance?

If the answer is no, then the individual will not have to pay the annual allowance charge and there is no need to carry out any more steps.

If the answer is yes, then go to the next step.

Total pension input amount for the tax year is more than the annual allowance

Work out how much the **total pension input amount** was for each of the last three tax years. If one or more of these tax years is before 2011-12 then the post 6 April 2011 rules should be used to work out the pension input amount for these years. There is more information about valuing pre 6 April 2011 pension inputs at [RPSM06108030](#).

A member can ask their **scheme administrator** to tell them the amount of their pension saving under that scheme for the last three tax years.

Work out how much unused annual allowance there is for these three years and add any unused annual allowance to the £50,000 available for the current year. This is the available annual allowance. If one of the previous three years has an input amount of more than the annual allowance then that excess is treated as using up any amount of available annual allowance from the preceding year(s) first and this will reduce the available annual allowance to be carried forward to the current year (but see [RPSM06108030](#), which gives details of when this general principle does not apply in relation to tax years before 2011-12).

Is the available annual allowance more than the total pension input amount for the relevant tax year?

If the answer is yes then there will be no annual allowance charge. Although there is no need to contact HMRC to make a claim or election for this carry forward, the member will need to keep a record in case their pension input amount exceeds the annual allowance in a subsequent year.

If the answer is no then the annual allowance charge is due on the amount of the pension input amount that is more than the available annual allowance.

Where the member has an annual allowance charge, they will need to include this on their Self Assessment tax return.

If their pension input amount in one pension scheme is more than the annual allowance i.e. £50,000 for 2011-12 and the amount of the annual allowance charge is more than £2,000 then the member can ask their scheme to pay the annual allowance charge for them. If they do this then their amount of pension benefits that they receive will be reduced to reflect the amount the pension scheme has paid on their behalf. This is known as "Scheme Pays"

For more information about 'Scheme Pays', see [RPSM06109020](#).

RPSM06108030 - Technical Pages: Annual allowance: From 6 April 2011: Calculating the tax charge: Valuing pre 2011 inputs

Valuing pension inputs made before 6 April 2011

[Para 30 Sch 17 FA 2011]

The amount of **annual allowance** for 2011-12 is lower than the annual allowance for previous tax years. Because of this there are special rules for working out how much annual allowance can be carried forward from the tax years 2008-09, 2009-10, and 2010-11.

The annual allowance for 2008-09, 2009-10 and 2010-11 is deemed to be £50,000. So if an individual's **total pension input amount** in each of those tax years was £20,000 then they will have £30,000 unused annual allowance to carry forward each year. If their total pension input amount was £50,000 or more in a year then they would not have any annual allowance left to carry forward from that tax year.

The way that pension savings are calculated is based on the new valuation methods. So, for a defined benefit arrangement you would use the new factor of 16 (rather than the existing factor of 10) and increase the opening value **CPI** to work out how much your pension saving is. (See [RPSM06107030](#))

Normally, if one of the previous three years has an input amount of more than the annual allowance then that excess is treated as using up any amount of available annual allowance from the preceding year(s) first and this will reduce the available annual allowance to be carried forward to the current year ([RPSM06108010](#) has more details). However, the position is different for 2008-09, 2009-10 and 2010-11.

If one of the previous three years that has an input amount of more than £50,000 is 2009-10 and/or 2010-11 then that excess is not treated as using up any amount of available annual allowance from the preceding year(s). This is because any amount of available annual allowance from the preceding tax year(s) would not have had the effect of reducing an amount of annual allowance charge for 2009-10 and/or 2010-11.

The method of working out if the individual has to pay an **annual allowance charge**, and how much, for the tax years 2008-09, 2009-10 and 2010-11 has not changed.

Example 1

Graeme has an **other money purchase arrangement** and a **defined benefits arrangement**. In 2011-12 Graeme has pension savings of £100,000 and both his pension input periods started on or after 14 October 2010. In the previous three tax years Graeme had the following pension input amounts:

2010-11 - £32,000

2009-10 - £30,000

2008-09 - £25,000

These pension input amounts were calculated using the pre 6 April 2011 method of valuing pension saving.

However, to find out whether there is any available unused annual allowance to carry forward, the pension input amounts need to be re-calculated using the post 6 April 2011 methods of valuing pension inputs. On this basis, Graeme's pension input amounts will be:

2010-11 - £38,000

2009-10 - £36,000

2008-09 - £30,000

So Graeme has £46,000 unused annual allowance that he can carry forward to 2011-12. This gives him a total available annual allowance of £96,000. This does not cover all of Graeme's pension saving and so the annual allowance tax charge is due on £4,000 pension saving over his available annual allowance.

Example 2

Bill's pension savings in 2011/12 are £76,000. This is £26,000 more than the annual allowance of £50,000. Bill will have an annual allowance charge on £26,000 if he doesn't have any available annual allowance to carry forward from earlier years.

To work out whether he has any available annual allowance, Bill will need to work out what his pension savings were in the previous three tax years. As all these years are from before 6 April 2011, Bill will need to re-calculate his pension savings for those years using the post 5 April 2011 valuation rules if from a defined benefit or cash balance arrangement.

His pension savings for the previous three years are:

2010-11 - £48,000

2009-10 - £55,000

2008-09 - £25,000

Bill has £27,000 available annual allowance to carry forward to 2011-12 (£25,000 from 2008-09 plus £2,000 from 2010-11). Bill's pension saving for 2009-10 is more than £50,000 so he has no available annual allowance from that year. However, the excess of £5,000 for that year is not treated as using up any of his available annual allowance from 2008-09.

So, in 2011-12 Bill can have pension savings of £77,000 before he has to pay an annual allowance charge. Bill's actual pension savings of £76,000 are less than this so he has no annual allowance charge for 2011-12.

He also has annual allowance available to carry forward to 2012-13. The amount of available annual allowance that he can carry forward is £1,000. This is because the only unused annual allowance in the previous three years is £2,000 from 2010-11 but Bill can use only £1,000 worth as the other £1,000 worth was used up against the excess pension savings of £26,000 that Bill had in 2011-12.

Unlike for 2011-12 when none of his unused annual allowance of £25,000 for 2008-09 was used up against his pension savings of £55,000 for 2009-10, Bill cannot carry forward all of his unused annual allowance of £2,000 from 2010-11. This is because £1,000 worth of that amount had the effect of preventing an annual allowance charge from applying in 2011-12.

In 2012-13 Bill's pension savings are £55,000. This is £5,000 more than the annual allowance of £50,000. Bill has £1,000 available annual allowance to carry forward from the previous three years so he will have an annual allowance charge on £4,000.