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Annual Allowance and Carry Forward

Guidance Notes

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The Annual Allowance and Carry Forward

The Annual Allowance

The annual allowance for pension contributions was introduced on 6th April 2006, and was increased gradually from £215,000 up to £255,000. The annual allowance was then reduced to £50,000 from 6th April 2011, and it was announced on 5th December 2012 that from 6th April 2014 the annual allowance will be reduced further to £40,000. Any contributions made to an individual's pension schemes that exceed their available allowance will incur an annual allowance tax charge, set at a rate depending on the level of their taxable earnings and the amount of the excess.

There may be a difference between the level of contributions that are allowable and the level of contributions that will attract tax relief. Just because a member contribution may attract income tax relief, that is not to say that it will be allowable (and, by the same token, just because a contribution is within the member's annual allowance is not to say that it will receive tax relief).

As contributions paid in respect of a scheme member over the age of 75 are not tax relievable, they do not count towards the annual allowance.

Pension Input Periods

The annual allowance does not simply apply to all pension contributions made in a certain tax year e.g. the total pension input amount for the 2013/14 tax year is not necessarily the total of contributions made between 6th April 2013 and 5th April 2014. Instead the level of contributions to be tested against the annual allowance for any given tax year is the total of all contributions made to pension schemes with a Pension Input Period (PIP) ending in that tax year.

The first PIP for a money purchase pension scheme starts on the date that the first contribution is made to that scheme, and normally ends at the end of that tax year i.e. on 5th April. In the case of defined benefits schemes the first PIP starts when benefits first start to accrue under the scheme, and also ends at the end of that tax year. If someone joins a money purchase pension scheme on 10th April 2013, and makes their first pension contribution on 1st May 2013, the first PIP starts on 1st May 2013 and ends on 5th April 2014. The next PIP starts on 6th April 2014 and ends on 5th April 2015, and thereafter subsequent PIPs will end on 5th April each year.

For schemes where the first contribution was made, or where benefits first started to accrue, after 5th April 2006 (A Day) but prior to 6th April 2011, the rules are slightly different: the first PIP would have started on the date of the first contribution or benefit accrual after A Day, and would have ended on the anniversary of that date, rather than at the end of that tax year. If an individual joined a pension scheme on 10th April 2008, and made their first contribution on 1st May 2008, the first PIP would have started on 1st May 2008 and ended on 1st May 2009. The next PIP would have started on 2nd May 2009 and ended on 1st May 2010, and subsequent PIPs will end on 1st May each year.

Changing the Pension Input Period

It is possible for the scheme member or the scheme administrator to nominate to alter the end of a scheme's PIP. The scheme member can decide to change their PIP whenever they like, but some restrictions do apply as to the PIP end dates they can nominate. The rules are also slightly different for the first PIP under an arrangement, and the subsequent PIPs under an arrangement:

- In the case of the first PIP under an arrangement, the nominated date must be within 12 months of the starting date of the PIP i.e. the first PIP can last for no more than 12 months. The nominated date also has to be a date after the nomination is made e.g. if the first PIP under an arrangement starts on 31st December 2012 and ends on 5th April 2013, and the member nominates on 1st May 2013 that they want to change that end date, they can nominate any date between 1st May 2013 and 31st December 2013. After 31st December 2013 it would not be possible to change the end date of this PIP.
- For the second and subsequent PIPs, the nominated date can be any date provided it falls in the tax year following the end of the previous PIP (so no intervening tax year is without a PIP), and the nominated date is after the date the nomination is made. For example, if the previous PIP under an arrangement ended on 31st December 2012, and a member nominates on 30th April 2013 to change the next PIP end date, they can choose any date between 30th April 2013 and 5th April 2014. After 5th April 2014 it would not be possible to change the end date of this PIP.

Changing the input period in this way can affect which tax year's annual allowance an individual's contributions are tested against, and could mean that in a 12-month period they could make contributions in excess of the annual allowance without incurring a penalty from HMRC. In the case of an occupational pension scheme (such as a Small Self Administered Scheme) changing the input period may be a matter of administrative convenience used to bring the input period into line with the sponsoring employer's accounting period.

Carrying forward unused annual allowance

To protect individuals from a tax charge in the event of a "spike" in their accrual of pension benefits, an individual can carry forward their unused annual allowance from up to three previous tax years, based on an allowance of £50,000 being deemed to have applied during that time (or £40,000 being deemed to apply to tax years from 2014/15 onwards). An individual can carry forward their allowance from previous years provided:

- They were a member of any registered pension scheme in that year i.e. they do not have to have been an active member of any scheme, and they do not have to have been a member of the scheme to which they wish to contribute.
- The allowance of £50,000/£40,000 has not been used up in any intervening year.

This would mean that if someone has been a member of a registered pension scheme for the last three tax years without having made any contributions, in an input period ending in 2013/14 they can personally contribute up to £200,000 without penalty (although whether tax relief is available depends on their earnings), or their employer can contribute up to £200,000 on their behalf, subject to the "wholly and exclusively for the purposes of trade" test.

Note that whereas large pension contributions in an intervening year can reduce the amount carried forward from a previous tax year, this specifically does not apply if the intervening year(s) is 2009/10 or 2010/11 (see example 4 below).

Examples

Example 1: Use of Pension Input Periods

Simon decides to join a SIPP scheme on 6th April 2011. He is not a member of any other pension scheme and therefore does not have any unused annual allowance from the previous three tax years. On 1st May 2011 he makes a pension contribution of £50,000.

Ordinarily Simon's first PIP would start on 1st May 2011 and end on 5th April 2012. Instead he opts to end his first PIP on 2nd May 2011. His contribution of £50,000 on 1st May 2011 will be tested against the annual allowance for 2011/12. His second PIP starts on 3rd May 2011 and would normally end on 2nd May 2012, in the 2012/13 tax year. Between these two dates he can contribute up to £50,000.

He decides to contribute a further £50,000 on 3rd May 2011, and then nominates to end his second input period on 6th April 2012, in the 2012/13 tax year. Simon's second contribution of £50,000 is therefore tested against the annual allowance for 2012/13.

His third pension input period begins on 7th April 2012 and ends on 6th April 2013, in the 2013/14 tax year. On 7th April 2012 he contributes £50,000 to his SIPP, which will be tested against the annual allowance for 2013/14.

By using pension input periods to his advantage, in the twelve months between 1st May 2011 and 30th April 2012 Simon has contributed £150,000 to his pension scheme without exceeding the annual allowance of £50,000:

Contribution amount	£50,000	£50,000	£50,000
Date of contribution	1st May 2011	3rd May 2011	7th April 2012
PIP start date	1st May 2011	3rd May 2011	7th April 2012
PIP end date	2nd May 2011	6th April 2012	6th April 2013
Tax year for annual allowance	2011/12	2012/13	2013/14

Example 2: Use of carry forward

Fiona joins her employer's SSAS on 6th April 2011, having been a member of a stakeholder pension since 6th April 2007. She has made no pension contributions since 5th April 2008. Using the carry forward rules, she would like to determine the maximum she can contribute to the SSAS in 2011/12.

For the Pension Input Periods ending in 2008/09, 2009/10 and 2010/11 her input amount is nil. Fiona can carry forward any unused allowance from these years, based on an allowance of £50,000 having applied during that time:

PIP ends in Tax Year:	Pension Input Amount:	Annual Allowance plus brought forward from previous year:	Excess Annual Allowance carried forward:
2008/09	Nil	£50k	£50k
2009/10	Nil	£50k + £50k = £100k	£100k
2010/11	Nil	£50k + £100k = £150k	£150k
2011/12	?	£50k + £150K = **£200k**	

In the Pension Input Period ending in 2011/12 Fiona can contribute up to £200,000 without exceeding her available annual allowance. This will use up her allowance for the tax years 2008/09, 2009/10, 2010/11 and 2011/12. If she does contribute £200,000 in 2011/12, in the PIP ending in 2012/13 Fiona will have no unused allowance to carry forward, and will be entitled only to the £50,000 annual allowance for that tax year.

Example 3: Unused allowance used up in an intervening year

John is self-employed, and joins a personal pension scheme in 2010/11 with the intention of beginning to make pension contributions. It is not until 6th April 2012 that he actually makes his first contribution of £100,000 to the scheme. This contribution falls in the PIP for 2012/13. John wishes to know how much he can contribute to his pension scheme in the PIP ending in 2013/14:

PIP ends in Tax Year:	Pension Input Amount:	Annual Allowance plus brought forward from previous year:	Excess Annual Allowance carried forward:
2010/11	Nil	£50k	£50k
2011/12	Nil	£50k + £50k = £100k	£100k
2012/13	£100k	£50k + £100k = £150k	£50k
2013/14	?	£50k + £50K = **£100k**	

John's contribution of £100,000 in 2012/13 is in excess of the annual allowance of £50,000. This has the effect of using up his unused allowance from previous tax years, starting with the earliest year first. The £50,000 unused allowance from 2010/11 is therefore used up. The £50,000 unused allowance from 2011/12 can be carried forward, potentially up to 2014/15, so the maximum allowable input in 2013/14 is £100,000.

Example 4: Unused allowance before 2011/12

The position would have been different if John had joined the personal pension scheme and started to make contributions a few years earlier:

PIP ends in Tax Year:	Pension Input Amount:	Annual Allowance plus brought forward from previous year:	Excess Annual Allowance carried forward:
2008/09	Nil	£50k	£50k
2009/10	£100k	£50k + £50k = £100k	£50k
2010/11	Nil	£50k + £50k = £100k	£100k
2011/12	?	£50k + £100K = **£150k**	

This time, John's contribution of £100,000 falls in the PIP ending in 2009/10. Whereas such a contribution would ordinarily have used up previous years' unused allowance, this rule specifically does not apply to excess contributions made in 2009/10 and 2010/11. Although there is no unused allowance to carry forward from 2009/10, neither does the contribution of £100,000 use up the unused allowance from 2008/09. The maximum that John can contribute in 2011/12 is therefore £150,000.

Note that the responsibility for determining whether they have any available allowance to carry forward to a given tax year, or if they are in breach of the annual allowance, rests with the scheme member. Their pension input amount in any given tax year is an aggregate of the amount contributed to all of their pension schemes in that year, so although each scheme administrator can provide them with a statement of the amount contributed to each individual scheme, only the scheme member will be able to determine if their pension input is in excess of the annual allowance.

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