

## Carry forward guide

### What is carry forward?

Carry forward allows savers to contribute more than the annual allowance without incurring tax charges.

Through carry forward, contributions that exceed the annual allowance in one tax year can use up unused annual allowance from the three previous tax years.

Although one of the main purposes of carry forward is to reduce or eliminate annual allowance charges that have inadvertently been incurred, it can also be used to sweep up contributions tax relief that savers have not chosen to, or been able to, use in recent tax years. Contributions can be paid with the purpose of using up the whole annual allowance in the current tax year and the previously unused contribution tax relief from earlier tax years.

### What are the eligibility requirements for carry forward?

In order to carry forward tax relief from an earlier tax year an individual must simply have been a member of any registered pension scheme in that tax year.

The individual does not need to have been a member of the scheme to which they are planning to make the contribution.

There is also no requirement for the individual to have made any form of pension contribution in the earlier tax year.

### From how many tax years can carry forward be used?

For most savers tax relief can be carried forward from the three tax years immediately before the tax year in which they are paying their contribution.

So, for someone looking to make a contribution during 2012/13 and use carry forward it is typically possible to use up tax relief from 2009/10, 2010/11 and 2011/12.

The three tax year rule works on a rolling basis. This means that someone who does not choose to make a contribution and use carry forward until 2013/14 will lose the ability to carry forward from 2009/10. They will however gain the ability to carry forward from 2012/13.

The position is slightly more complicated for the small number of savers who have changed the end date of their pension input period at some point in the past. Please see "What if I have changed my pension input period?" below.

### What is the maximum amount that can be carried forward from an earlier tax year?

The maximum amount that can be carried forward from any given tax year is £50,000.

This amount is reduced if contributions have been paid in that earlier tax year or in some cases where contributions have been paid in tax years since that earlier tax year.

Using a basic example first:

Contributions have been paid to Mr Cannon's pension scheme as follows:

Tax Year	Contribution paid	Annual allowance remaining	Cumulative carry forward
2009/10	£100,000	£0	£0
2010/11	£20,000	£30,000	£30,000
2011/12	£30,000	£20,000	£50,000

## What is the maximum amount that can be carried forward from an earlier tax year? (cont)

Once Mr Cannon has used up all of his £50,000 annual allowance for the 2012/13 tax year he is able to carry forward up to £50,000 from earlier tax years as well.

Taking the example on slightly, HMRC originally said that, where the large £100,000 contribution had been paid in the second or third carry forward tax years, not only would this have used up all of the available annual allowance for that tax year, but also for the preceding tax year.

HMRC has now confirmed, where the large contribution was paid in the 2010/11 tax year, there will be no effect on the annual allowance in earlier tax years. This is an important change for anyone affected by the previous restriction as it has the potential to allow some investors to contribute up to £50,000 more to their pension scheme. The following table gives an example of the new rules:

Tax Year	Contribution paid	Annual allowance remaining	Earlier annual allowance used up	Cumulative carry forward
2009/10	£20,000	£30,000	£0	£30,000
2010/11	£100,000	£0	£30,000	£0
2011/12	£30,000	£20,000	£0	£50,000

Complicating matters slightly, the old interpretation of the rules will continue to apply to carry forward tax years after 2010/11. So contributions of more than £50,000 in the 2011/12 or 2012/13 tax year will reduce the carry forward available from earlier tax years. It is important to note that large contributions paid in 2011/12 or later will only affect the available annual allowance in earlier tax years. The annual allowance available in later tax years is not affected.

## Is there a limit on the tax relief I can receive on carry forward contributions?

Tax relief on personal contributions is limited by an individual's relevant UK earnings in the tax year in which the contribution is paid. This applies both to contributions where carry forward is a factor and those where it is not. This means that, for personal contributions, it is the earnings in the tax year of payment which are important, not the earnings from the tax year from which you are carrying forward.

For example someone with relevant UK earnings of £250,000 in 2012/13 but no relevant earnings from previous tax years because they had been living overseas would receive tax relief on personal carry forward contributions.

Alternatively an individual with relevant UK earnings of £50,000 in each of the last four tax years would not gain tax relief on personal carry forward contributions.

Tax relief on contributions paid by an individual's employer is not linked to the individual's earnings. Employer contributions can be used for carry forward, but tax relief will be dependant on the contribution being paid wholly and exclusively for the purposes of the business's trade or profession.

## What if I have changed my pension input period?

The amount of the annual allowance used by pension savers is worked out by looking at the contributions paid in the pension input period which ends in a particular tax year.

Most SIPP providers link the end date of pension input periods to the end of the tax year because it makes it simpler for savers to work out how much annual allowance they have used in a given tax year. However this is not the case with all pensions and many providers, including A J Bell Platinum, offer their clients the flexibility to end their pension input period on a different date if they wish.

Where a saver's pension input period ends on a date other than the tax year end, their contributions will not always be tested against the annual allowance in the year in which they are paid.

Looking at an example, Mrs Clark has chosen to end her pension input period on 30 June each year.

If she pays a contribution between 6 April 2012 and 30 June 2012 the contribution will fall in the pension input period ending in the 2012/13 tax year and so her contribution will be tested against that tax year. This means that the contribution will be tested against the annual allowance in the year in which it is paid.

However, if she pays her contribution between 30 June 2012 and 5 April 2013 then, although the contribution is paid in the 2012/13 tax year, it falls in the pension input period ending in the 2013/14 tax year and so will be tested against that tax year's annual allowance. So in this example, the contribution will be tested against the annual allowance in the year after it was actually paid.

This is particularly important when considering carry forward because, in the latter example, the fact that Mrs Clark's contribution is tested against the 2013/14 annual allowance means that she is only able to carry forward from 2010/11, 2011/12 and 2012/13 i.e. she has lost the ability to carry forward from 2009/10.

The 6 April 2011 rule changes do offer a solution to this issue. Before 6 April 2011 pension input periods were restricted to a maximum duration of 12 months. This restriction has now been removed. In the above example, if Mrs Clark did wish to carry forward unused tax relief from 2009/10 but was unable to pay a contribution by 30 June 2012, she could push back the end of her pension input period from 30 June 2012 to, say, 5 April 2013. If she did this, her contribution would be tested against the 2012/13 annual allowance rather than 2013/14. This would allow her to carry forward from 2009/10 in respect of contributions paid up to and including 5 April 2013.

## Do I need to complete any forms or provide any other information to use carry forward?

No. There is no requirement to provide any further information or documentation when making a carry forward contribution.

If the annual allowance is exceeded under any single registered pension scheme the administrator of that scheme will provide information about annual allowance usage for that, and the previous three, tax years. This information will enable the saver to confirm that they have made use of carry forward when completing their self-assessment return.

Where an individual has not exceeded the annual allowance through any one scheme but believe they may have done so when all of their pensions are combined, they can request this information from their pension providers.

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