

# Building a bigger pension

## Could you benefit from the reintroduction of the Carry Forward rules?

From 6 April 2011 the annual allowance for pension contributions reduced from £255,000 to £50,000. While this restricts the levels of contributions you can make without attracting an Annual Allowance charge, on the plus side the Government has brought back the Carry Forward rules.

### Increasing pension contributions

The principle of Carry Forward allows you to increase pension contributions by using unused annual allowances from the previous three tax years. The facility therefore enables contributions in excess of the £50,000 annual allowance still to be possible.

The Carry Forward facility applies on a rolling three-year basis, so for 2011/12 the three previous tax years will be 2008/09, 2009/10 and 2010/11 – with any unused allowances from the earliest year being used up first. So, for example, if you made no contributions to a pension in the 2008/09, 2009/10 and 2010/11 tax years, you could contribute up to £200,000 in the 2011/12 tax year.

### Calculation of contribution allowances

**Even though tax years 2008/09 to 2010/11 inclusive are before the rule changes, the calculation of contribution allowances is based on the new rules, so:**

- the annual allowance is £50,000
- any defined benefit pension plans and cash balance accruals are based on a factor of 16 instead of 10, with some inflation proofing
- in a year when retirement benefits are taken, any pension contributions made will be assessed against the annual allowance

### Qualifying contributions

To qualify, you can Carry Forward any unused annual allowances from a tax year in which you are a member of, or join, a registered pension scheme. You do not need to have a Pension Input Period (PIP) ending in that tax year, or have to contribute to the pension scheme in each tax year. Only unused annual allowances from PIPs ending in the previous three tax years can be carried forward.

### Annual allowance

The annual allowance that applies to pension contributions is based upon the tax year in which the PIP ends. Each arrangement in a scheme can have its own PIP; however, the scheme may set the PIP dates or the member can nominate them.



Where the PIP dates are not nominated by the client, the PIP runs from the first contribution date to the end of the tax year in which it started – for example, if the first contribution was made on 7 May 2011, then the first PIP runs from 7 May 2011 to 5 April 2012.

Subsequent PIPs will end on the day before the anniversary of the end of the last PIP.

Where it is possible to nominate a different end date for a PIP, you need to notify the scheme administrator in advance. Subsequent PIPs will end on the day before the anniversary of the end of the last PIP.

### Extra opportunities

Adjusting the PIP dates within the rules can provide extra Carry Forward opportunities.

#### You could amend the PIP dates provided that:

- the first PIP can end in the same tax year that it started
- the first PIP must end prior to the anniversary of payment and can be in the same tax year that it started
- the second and subsequent PIPs must end in the tax year after the tax year the previous PIP ended

there can be only one PIP ending in each tax year

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