

Carry forward - a last chance opportunity!

A Case Study

Sarah has a Dentons SIPP which she established in 2009 into which she has been making annual contributions. She has recently been promoted and her earnings, along with a bonus, are now much higher pushing her into the additional rate tax band. As a result Sarah now wants to maximise her contributions to her SIPP to take advantage of tax relief without incurring an Annual Allowance tax charge.



Facts:

- > As Sarah has been a member of a registered pension scheme since 2009, she can carry forward any unused Annual Allowance from the 3 previous tax years to the current tax year
- > 'Member' means active member, pensioner member, deferred pensioner member or pension credit member
- > The Annual Allowance for a tax year must be used up before any unused Annual Allowance from previous tax years can be carried forward
- > The Annual Allowance was reduced to £40,000 for the tax year 2014/15 and special arrangements applied for the tax year 2015/16. See Note 1 on next page.
- > For the tax year 2016/17 and subsequent tax years, the Annual Allowance was reduced for those with an 'adjusted income' over £150,000. See Note 2 on next page.
- > Sarah's earnings for the tax year 2017/18 and 2018/19 are £180,000, which means her Annual Allowance for the tax year is scaled down to £25,000.

Process:

- > Sarah must first use her scaled down Annual Allowance for the current tax year of £25,000.
- > She can then carry forward any unused Annual Allowance from the 3 previous tax years, beginning with the tax year 2015/16, in order to avoid incurring an Annual Allowance charge - see table below.
- > Tax relief is usually only granted where the individual's earnings for the tax year are at least equal to the gross personal contributions made in that tax year, so Sarah should get full tax relief on the total contribution of £80,000 she wishes to make in the tax year by carrying forward unused Annual Allowance from the 3 previous tax years.

Tax year	Personal contribution made	Annual Allowance for tax year	Unused Annual Allowance	Cumulative carried forward
2018/19	£25,000	£25,000	£0	£55,000
2017/18	£25,000	£25,000	£0	£55,000
2016/17	£25,000	£40,000	£15,000	£35,000
2015/16 'Post alignment'	£20,000	up to £40,000*	£20,000	£20,000
2015/16 'Pre-alignment'	£0	£40,000*	£0	£0

- > Sarah is therefore able to make total contributions to her SIPP for tax year 2018/19 of £80,000 using the carry forward facility. In this way she will not incur any Annual Allowance charges.

* Please see Note 1 on the next page.

Advantages:

- > Higher earners can maximise contributions within a tax year
- > Tax relief granted on all allowable contributions at the individual's marginal rate
- > Ability to maximise contributions without incurring a tax charge

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Notes

1. Due to an interim Budget on 8 July 2016, the Annual Allowance for the tax year was increased to £80,000 but if this had not all been used up before 9 July 2016 only £40,000 of it could be carried forward to the period 9 July to 5 April 2017. It is only any unused part of this £40,000 that can be carried forward.
2. The reduction is on a sliding scale of £1 of Annual Allowance for every £2 of 'adjusted income' over £150,000 down to £10,000. Therefore, anyone with adjusted income of £210,000 or more will have a scaled down Annual Allowance of £10,000 for that tax year. 'Adjusted income' includes dividend and interest on savings and adds back any pension contributions to prevent individuals from avoiding the restriction by exchanging salary for employer contributions.

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If VAT may be applicable, you should seek specialist advice.

Whilst the names used in this case study are fictitious, the processes described have been used in actual cases.

Please note that every care has been taken to ensure that the information provided is correct and in accordance with our understanding of current law and HMRC rules, which are both subject to change.



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