

Carry forward - a last chance opportunity!

A case study



Sarah has a Dentons SIPP in to which she has been making annual contributions. Following a recent promotion her earnings, along with a bonus, have been quite stable and are much higher than previously, pushing her into the additional rate tax band. As a result Sarah wants to maximise her contributions to her SIPP to take advantage of tax relief without incurring an annual allowance tax charge.

The facts

- As Sarah has been a Member¹ of a registered pension scheme since 2009, she can carry forward any unused annual allowance from the three previous tax years to the current tax year
- 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 from the tax year 2014/15
- For the tax year 2016/17 and subsequent tax years, the annual allowance was reduced for those with an 'adjusted income' over £150,000. From 6/4/2020, the adjusted income was increased to £240,000²
- Sarah's earnings for the tax year 2019/20, 2020/21 and 2021/22 are £200,000, which means her annual allowance for the 2019/20 tax year is scaled down to £15,000. However her annual allowance is not scaled down for 2020/21 nor 2021/22 because of the increase in the definition of adjusted income to £240,000 from 06/04/2020.

The process

- Sarah must first use her annual allowance for the current tax year of £40,000
- She can then carry forward any unused annual allowance from the three previous tax years, beginning with the tax year 2018/19, in order to avoid incurring an annual allowance charge - please see the 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 £85,000 she wishes to make in the tax year by carrying forward unused annual allowance from the three previous tax years
- Sarah is therefore able to make total contributions to her SIPP for tax year 2021/22 of £85,000 using the carry forward facility. In this way she will not incur any annual allowance charges. The increase of the 'adjusted income' definition to £240,000 has given Sarah an additional annual amount of £25,000 compared to the 2019/20 tax year, even though her earnings are the same in the 2021/22 tax year.

The result

- As a higher earner, Sarah can maximise her 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.

Year	Adjusted income	Annual Allowance	Contribution made	Unused annual allowance
2021/22	£200,000	£40,000	£0	£40,000
2020/21	£200,000	£40,000	£10,000	£30,000
2019/20	£200,000	£15,000	£15,000	£0
2018/19	£65,000	£40,000	£25,000	£15,000

Notes

1. 'Member' means active member, pensioner member, deferred pensioner member or pension credit member.
2. Tapered annual allowance reduces a pension scheme member's annual allowance on a sliding scale for a tax year in which their 'adjusted income*' exceeds a certain figure. For the 2021/22 tax year, this is £240,000. Members with an adjusted income of £312,000 or more in the tax year 2021/22 will have a maximum tapered annual allowance of £4,000. The tapered annual allowance will not apply if a member's 'threshold income**' is £200,000 or less, even if they have adjusted income of £240,000 or more. An individual's annual allowance was not affected the tapering in tax years prior to 2016/17, although it may have been affected by the 'money purchase annual allowance***' from 6/4/2015.

*Adjusted income includes the member's earnings, dividends, interest on savings and pension contributions (including those made as a result of a salary sacrifice or similar arrangement).

**Threshold income is broadly similar to adjusted income except that pension contributions that entitle the member to Relief at Source and employer contributions resulting from a salary sacrifice (or similar arrangement) made before 9 July 2015 are excluded.

***Money purchase annual allowance was £10,000 for the tax years 2015/2016 and 2016/17 and £4,000 for the tax year 2017/18 and subsequent tax years.

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