For Financial Adviser use only

Carry forward - a last chance opportunity!

A case study

Sarah has a Dentons SIPP into which she has been making annual contributions. Following a recent promotion her earnings, along with a bonus, have increased by comparison to previous years. As a result Sarah wants to maximise her contributions to her SIPP to take advantage of the tax relief without incurring an annual allowance tax charge.

The facts

- As Sarah has been a Member[1] of a registered pension scheme since 2009, she maybe able to carry forward any unused annual allowance from the three previous tax years to the current tax year subject to her earnings
- The annual allowance for the current tax year must be used up before any unused annual allowance from previous tax years can be carried forward
- The annual allowance was increased to £60,000 from the tax year 2023/24
- For the tax year 2020/21 and subsequent tax years, the annual allowance is reduced for those with 'threshold income' above£200,000 and 'adjusted income' over £240,000. From 6/4/2023, the adjusted income was increased to £260,000[2]
- Sarah's earnings for the tax years 2021/2022 and 2022/23 are £240,000 in each year and for the tax years 2023/24 and 2024/25 are £312,000 in each year. This means that her annual allowance is not scaled down for the 2021/22 and 2022/23 tax years. However, her annual allowance is scaled down for the 2023/24 and 2024/25 tax years because her adjusted earnings exceeded £260,000.

The process

- Sarah must first use her annual allowance for the current tax year which is scaled down from the full annual allowance of £60,000 as her current earnings exceed the tapered allowance limits*
- She can then carry forward any unused annual allowance from the three previous tax years, beginning with the tax year 2021/22, in order to avoid incurring an annual allowance charge - please see the table on the next page
- 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 £103,000 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 2024/25 of £103,000 using the carry forward facility. In this way she will not incur any annual allowance charges. The increase of the 'adjusted income' definition to £260,000 and the increase in the annual allowance to £60,000 has given Sarah an additional contribution amount of £60,000 compared to what would have been possible, had these increases not taken place.

The result

- As a higher earner, Sarah can maximise her contributions within a tax year
- Tax relief is granted on all allowable contributions at the Sarah's marginal tax rate
- Sarah has been able to maximise her contributions without incurring a tax charge.

Annual allowance tables

Sarah's carry forward position from 6/4/2024 (assuming she has threshold income above £200,000):

Year	Adjusted income	Annual Allowance	Contribution made	Unused annual allowance
2024/25	£312,000	£34,000	£0	£34,000
2023/24	£312,000	£34,000	£0	£34,000
2022/23	£240,000	£40,000	£20,000	£20,000
2021/22	£240,000	£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 2023/24 and 2024/25 tax years, this is £260,000. Members with an adjusted income of £360,000 or more in the tax years 2023/24 and 2024/25 will have a maximum tapered annual allowance of £10,000. 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 £260,000 or more. An individual's annual allowance was not affected by 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 (MPAA) was £10,000 for the tax years 2015/16 and 2016/17 and £4,000 for the tax years 2017/18 to 2022/23. For the tax years 2023/24 and 2024/25 the allowance rose to £10,000. Individuals subject to the MPAA as a result of drawing retirement income flexibly or by taking uncrystallised funds pension lump sum cannot make use of Carry Forward even if in the previous three tax years they were not subject to the MPAA.

   Individuals whose adjusted annual income* exceeds £260,000 and whose threshold income exceeds £200,000 will have a reduction in their annual allowance of £1 for every £2 of income above £260,000. Had adjusted income been retained at £240,000 and the Annual Allowance retained at £40,000 in the 2023/24 and 2024/25 tax years, Sarah's Annual Allowance would have been tapered down to £4,000 in each year (and assuming that the minimum tapered Annual Allowance was not set at £10,000).

Dentons Pensions

Dentons Pension Management Limited
Sutton House, Weyside Park
Catteshall Lane, Godalming
Surrey GU7 1XE

T 01483 521 521
F 01483 521 515
E enquiries@dentonspensions.co.uk
W www.dentonspensions.co.uk

DPM.CaseStudy.CarFwd.0824