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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, are much higher than previously. 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 Member[1] 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 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 an '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 2020/21 and 2021/22 are £240,000 in each year and for the tax years 2022/23 and 2023/24 are £312,000 in each year. This means that her annual allowance is not scaled down for the 2020/21 and 2021/22 tax years. However, her annual allowance is scaled down for the 2022/23 and 2023/24 tax years because her adjusted earnings exceed £240,000 and £260,000 respectively.

The process

- Sarah must first use her annual allowance for the current tax year of £60,000
- She can then carry forward any unused annual allowance from the three previous tax years, beginning with the tax year 2020/21, 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 £73,000 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 2023/24 of £73,000 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 £30,000 even though her earnings are the same in the 2022/23 and 2023/24 tax years.

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.

Annual allowance tables

Sarah's carry forward position, had there been no changes to TAA and AA from 6/4/2023:

Year	Adjusted income	Annual Allowance	Contribution made	Unused annual allowance
2023/24	£312,000	£4,000	£0	£4,000
2022/23	£312,000	£4,000	£0	£4,000
2021/22	£240,000	£40,000	£20,000	£20,000
2020/21	£240,000	£40,000	£25,000	£15,000

Sarah's carry forward position, following changes to TAA and AA from 6/4/2023:

Year	Adjusted income	Annual Allowance	Contribution made	Unused annual allowance
2023/24	£312,000	£34,000	£0	£34,000
2022/23	£312,000	£4,000	£0	£4,000
2021/22	£240,000	£40,000	£20,000	£20,000
2020/21	£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 tax year, this is £260,000. Members with an adjusted income of £360,000 or more in the tax year 2023/24 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 was £10,000 for the tax years 2015/2016 and 2016/17 and £4,000 for the tax years 2017/18 to 2022/23. For the tax year 2023/24 the allowance rose to £10,000.

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- 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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