ROYAL LONDON

CARRY FORWARD
CASE STUDIES

Read our case studies to understand how carry forward of unused annual allowance works in practice.

CASE STUDY 1: SAM

About Sam

- Sam has his own limited liability company. In 2020/21, he'll pay himself a salary of **£5,000** and take dividends of **£100,000**.
- He took out a personal pension plan on **1 August 2012** and has been saving **£1,200** per month in employer contributions ever since.
- Since the summer Budget on 8 July 2015 the pension input periods for all registered pension schemes are aligned with the tax year (6 April to 5 April).
- He has no other retirement savings and wants to make a substantial single contribution before the end of the 2020/21 tax year.

Sam wants to know how much he can contribute without triggering an annual allowance charge. He hasn't triggered the Money Purchase Annual Allowance (MPAA) and the tapered reduction of annual allowance for people with high income doesn't apply.

How much can Sam carry forward?

The table below shows the relevant tax years and what annual allowance is available. Any unused annual allowance from prior to the 2017/18 tax year is lost as it is only possible to carry forward unused annual allowance from the previous 3 tax years.

TAX YEAR	ANNUAL ALLOWANCE	TOTAL CONTRIBUTIONS	CARRY FORWARD AVAILABLE	CARRY FORWARD USED	CARRY FORWARD REMAINING
2017/18	£40,000	£14,400	£25,600	0	£25,600
2018/19	£40,000	£14,400	£25,600	0	£25,600
2019/20	£40,000	£14,400	£25,600	0	£25,600
2020/21	£40,000	£14,400*	£25,600	0	£25,600
				Total	**£102,400**

*It is assumed the regular contributions continue until the end of the tax year.

Sam can therefore make further contributions of £102,400 before the end of the tax year without an annual allowance tax charge applying.

An employer contribution up to this amount can be made. This would receive corporation tax relief if the 'wholly and exclusively' conditions are met. However, tax-relievable member contributions will be limited to £5,000 gross (100% of Sam's salary).

CASE STUDY 2: AMY

About Amy

- Amy is the Finance Director of a large manufacturing company earning **£270,000** in the 2020/21 tax year.
- Since taking out her personal pension plan in May 2010, Amy's employer has been making occasional single contributions. Amy doesn't have any other retirement savings.
- Since the summer Budget on 8 July 2015 the pension input periods for all registered pension schemes are aligned with the tax year (6 April to 5 April).
- She wants to make a substantial contribution before the end of 2020/21 tax year.
- Amy has no other taxable income for the 2020/21 tax year.

Amy wants to know how much she can contribute without triggering an annual allowance charge. She hasn't triggered the MPAA and the tapered reduction of annual allowance for people with high incomes hasn't applied to her in previous years but could this year as her earnings are £270,000.

How much can Amy carry forward?

The table below shows the relevant tax years and what annual allowance is available. Any unused annual allowance from prior to the 2017/18 tax year is lost as it is only possible to carry forward unused annual allowance from the previous 3 tax years.

TAX YEAR	ANNUAL ALLOWANCE	TOTAL CONTRIBUTIONS	CARRY FORWARD AVAILABLE	CARRY FORWARD USED	CARRY FORWARD REMAINING
2017/18	£40,000	£21,600	£18,400	0	£18,400
2018/19	£40,000	£22,200	£17,800	0	£17,800
2019/20	£40,000	£22,800	£17,200	0	£17,200
2020/21	£40,000*	£0	£40,000	0	£40,000
				Total	**£93,400**

*If Amy makes an individual contribution of £93,400 this will reduce her threshold income to £176,600. This means her annual allowance will be £40,000 for 2020/21 as the taper will not apply.

The payment of £93,400 is within her earnings for the tax year and will receive tax relief at her marginal rate. She won't regain her personal allowance as her earnings will still be over £100,000 for income tax purposes.

CASE STUDY 3: BRIAN

About Brian

- Brian is a partner in an accountancy firm and will earn **£110,000** in the 2020/21 tax year.
- He's been making occasional single contributions into a personal pension plan since September 2016.
- Since the summer Budget on 8 July 2015 the pension input periods for all registered pension schemes are aligned with the tax year (6 April to 5 April).
- He's never been a member of any other pension scheme and now wants to make a substantial single contribution before the end of the 2020/21 tax year.
- Brian has used carry forward previously the last time being in the 2017/18 tax year.

Brian wants to know how much he can contribute without triggering an annual allowance charge. He hasn't triggered the Money Purchase Annual Allowance and the tapered reduction of annual allowance for people with high income doesn't apply.

How much can Brian carry forward?

The table below shows the relevant tax years and what annual allowance is available. Any unused annual allowance from prior to the 2020/21 tax year is lost as it is only possible to carry forward unused annual allowance from the previous 3 tax years.

TAX YEAR	ANNUAL ALLOWANCE	TOTAL CONTRIBUTIONS	CARRY FORWARD AVAILABLE	CARRY FORWARD USED	CARRY FORWARD REMAINING
2016/17	£40,000	£20,000	£20,000	0	£20,000
2017/18	£40,000	£60,000	£20,000	£20,000	£0
2018/19	£40,000	£15,000	£25,000	0	£25,000
2019/20	£40,000	£20,000	£20,000	0	£20,000
2020/21	£40,000	£25,000	£15,000	0	£15,000
				Total	**£60,000**

After paying the single contribution of £25,000 in tax year 2020/21, a further individual contribution of up to £60,000 can be paid before the end of the tax year without an annual allowance charge applying. This total contribution is within Brian's earnings so will be eligible for tax relief.

CARRY FORWARD TEMPLATE

Here are some things you need to consider when working out if carry forward applies to your clients.

- What contributions have already been made this tax year?
- Individual contributions need to be supported by sufficient earnings in the tax year.
- Does the money purchase annual allowance apply?
- Does the tapered annual allowance apply?

TAX YEAR	ANNUAL ALLOWANCE	TOTAL CONTRIBUTIONS	CARRY FORWARD AVAILABLE	CARRY FORWARD USED	CARRY FORWARD REMAINING

If the MPAA applies, it's not possible to carry forward unused annual allowance to a defined contribution (DC) plan. DC contributions must be limited to £4,000 to avoid an annual allowance charge.

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