

Pension Carry Forward

The pension carry forward rule allows you to take advantage of unused annual allowances from the previous three tax years, and add it to the current year allowance.

This means, you can receive tax relief on pension contributions which exceed the usual £60,000 annual allowance. However, your earnings must be at least equal to the amount that you are looking to contribute in the current tax year if you are making the contribution as an employee. (employer contributions are measured by allowance availability not relevant earnings).

To qualify for carry forward, you must have:

- 1** Been a member of a pension scheme in each tax year from which you carry forward.
- 2** Used up your full annual allowance in the current tax year.
- 3** Contributed less than your annual allowance in at least one of the previous three tax years (including personal and employer contributions).

Personal Pension Contribution – Carry Forward Example

Mrs Ford enjoyed a particularly successful year at work and received a substantial bonus from her employer. She is now looking to make a lump sum pension contribution with her additional capital.

This year, she had a salary of £200,000, and received an £80,000 bonus. In each of the last three tax years, she had total income of £150,000.

Mrs Ford wants to know if she can pay the £80,000 into her pension as a lump sum, given the tax relief benefits available. This will be in addition to the 10% total contribution being made between her and her employer.

The current tax year maximum annual allowance is £60,000 and was £40,000 in the previous 3 years.

Existing contributions

| | | |
|------------------|--------------|-------------------|
| 2020/21 tax year | £15,000 used | £25,000 available |
| 2021/22 tax year | £15,000 used | £25,000 available |
| 2022/23 tax year | £15,000 used | £25,000 available |
| 2023/24 tax year | £20,000 used | £25,000 available |

Additional Contribution

Mrs Ford makes a payment of £64,000 from her bank account and the pension provider applies basic rate tax relief, providing an uplift in the sum invested by 25%. The pension contribution therefore totals £80,000 with allowances used, as below.

| | | |
|------------------|--------------------------------|-------------------|
| 2020/21 tax year | £25,000 used plus £15,000 used | |
| 2021/22 tax year | £15,000 used plus £15,000 used | £10,000 available |
| 2022/23 tax year | £15,000 used | £25,000 available |
| 2023/24 tax year | £40,000 used plus £20,000 used | |

Under carry forward rules, the current tax year's annual allowance is utilised first. After this, any available allowances that have been unused from the previous 3 tax years are then utilised, starting with the earliest year. In this instance, a full allowance of £60,000 is used in the current tax year (2023-24), followed by the full £40,000 in the earliest year (2020-21), and then part of the following tax year (2021-22). This leaves a remaining balance in the 2021-22 and 2022-23 tax years that are not fully utilised but could again be carried forward to future calculations.

Lastly, Mrs Ford can reclaim additional rate tax of £20,000 in her tax return, repaid to her pocket. The pension contribution of £80,000 therefore has an effective cost of £44,000 to Mrs Ford, with a full reclaim of tax at marginal rates.

As a standard, we would require three years of pension contribution data and income details to perform this calculation, in addition to the current year. Depending on your pension contribution history, it may be necessary to acquire 6 years of pension contribution and income data if carry forward has been used previously.

Risk Considerations

Past performance is no guarantee of future returns.

The price of units and the income from them can fall as well as rise.

This investment is intended as a long-term investment and under current HM Revenue & Customs' practice it's not normally possible to access the fund(s) prior to the age of 55. The minimum age will increase to 57 from 2028 with further increases expected as the State Pension Age goes up.

Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended is still designed to meet your stated tolerance.

Tax rules are subject to change.

Risk Warnings:

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