

Talking Points

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Dear subscriber

Increased scope for use of carry forward for high earners

Previously those who had made large pension contributions in excess of £50,000 in the last 3 years had their carry forward restricted or even wiped out.

New guidance issued on Friday 25 November 2011 from HMRC indicates that those contributions previously paid in excess of £50,000 will be ignored for carry forward calculations in this transitional phase.

This may lead to further top up contributions being paid by high earning individuals in the run up to the end of the tax year following recalculations.

The original guidance

Originally the calculations were as follows:

2008-09 - £25,000 (£25,000 below deemed AA)

2009-10 - £55,000 (£5,000 over deemed AA)

2010-11 - £48,000 (£2,000 below deemed AA)

£25,000 - £5,000 + £2,000 = £22,000 to carry forward

The updated HMRC guidance

The new calculations exclude the excess over the deemed annual allowance so the calculation would be as follows:

£25,000 + £2,000 = £27,000 to carry forward

This issue would have a much greater impact if the 2009-10 contribution originally wiped out the carry forward from 2008-09, say a contribution of £75,000 in the example above would mean that previously they would have only been able to carry forward £2,000 and under the new guidance they can carry forward £27,000.

It is worth noting that this only applies for the tax years prior to the reduction in the annual allowance to £50,000.

Other things to remember

Only those fully utilising this year's annual allowance can use carry forward. It is not possible to use previous years' relief before the annual allowance for the year in which the contribution is being paid.

Tax relief on personal contributions still needs to be supported by earnings in the tax year in which they are paid, it is not possible to carry tax relief forward from previous years, only annual allowances.

Our view

This makes the calculations simpler in the short term but over the next few years when both types of calculation apply it could well mean that advisers need to be very careful which year they are looking at and which calculation basis applies.