



MEDIA RELEASE: 28th November 2011

HMRC CHANGE THE CARRY FORWARD RULES

HMRC have set out a [change](#) in the way they believe the carry forward rules operate in respect of the transitional tax years of 2008/09 to 2010/11.

This new interpretation should be used for all carry forward calculations in respect of the transitional years and has retrospective effect from 6 April 2011.

We have set out below HMRC's original interpretation of the carry forward rules and the new 25 November 2011 interpretation.

Pre 25 November 2011 Interpretation – 'Transitional' Tax Years

Before an individual can use the carry forward rules, first he has to use up his current tax year's annual allowance (AA). He can then take advantage of any unused AA in respect of the three immediately preceding tax years. The unused AA is absorbed from the earliest tax year first.

The following example demonstrates how this works and is based on Angela, who has pension input as detailed below:

Tax year	Pension Input	Carry forward calculation	Carried forward to next tax year	Total carried forward to next tax year
2008/09	£40,000	£50,000 - £40,000	£10,000	£10,000
2009/10	£70,000	£50,000 + £10,000 - £70,000	Nil	Nil
2010/11	£42,000	£50,000 - £42,000	£8,000	£8,000

The maximum amount that Angela can carry forward to tax year 2011/12 is £8,000. This is because although she had £10,000 available unused annual allowance for 2008/09 this is (more than) used up in tax year 2009/10. The pension input of £70,000 in tax year 2009/10 exceeded the deemed £50,000 annual allowance for that tax year, so the £10,000 2008/09 carried forward annual allowance is set against the excess £20,000. Therefore she is only able to carry forward the unused annual allowance of £8,000 for tax year 2010/11. Note that although the carried forward calculation for tax year 2009/10 would in theory have produced a negative number ($£50,000 + £10,000 - £70,000 = - £10,000$), this is ignored and the carried forward amount will still be nil: carry forward calculations cannot produce negative sums.

25 November 2011 Interpretation – 'Transitional' Tax Years

HMRC now believe that the carry forward rules operate differently where the carry forward is in respect of the three 'transitional' carry forward tax years of 2008/09, 2009/10 and 2010/11. In these cases each year will be assessed on its own and any unused AA will not be set against pension input in excess of the AA in a subsequent carry forward tax year. Thus in 2011/12 the available carry forward will always be the sum of the carry forward amounts generated in the preceding three tax years.

Using the same example of Angela, the HMRC view is that the carry forward position is now as follows:

Tax year	Pension Input	Carry forward calculation	Carried forward to next tax year	Total carried forward to next tax year
2008/09	£40,000	$£50,000 - £40,000$	£10,000	£10,000
2009/10	£70,000	$£50,000 + £10,000 - £70,000$	Nil	£10,000
2010/11	£42,000	$£50,000 - £42,000$	£8,000	£18,000

Under this new interpretation the maximum Angela can carry forward to tax year 2011/12 increases to £18,000 (i.e the unused AA from tax years 2008/09 and 2010/11. The unused AA from 2008/09 is retained and is not set against the £70,000 pension input in 2009/10.

Carry Forward for Non 'Transitional' Tax Years (pension input for 2011/12 onwards)

The original rules, as set out above under HMRC's pre 25 November 2011 interpretation, will continue to apply for any carry forward of unused AA for tax years after the 'transitional' years.

Comment

While this change is to be welcomed as it will increase the available carry forward for some individuals, it is a great pity that it has only now been highlighted by HMRC, almost 8 months after the carry forward rules were introduced and nearly a year since the first legislation was issued in draft.

If you have any questions or require further information please do not hesitate to contact Stephen Watson on (01872) 225885 or enquiries@watsonfrench.co.uk