AJBell Platinum

Annual allowance tapering

Contents

IMPORTANT

This information is based on our current understanding of the pension changes. This is provided for information only; we do not provide advice.

Please note that the value of investments, and any income from them, can go down as well as up, and you may not get back your original investment. Tax rules can change in the future and the tax treatment depends on your personal circumstances. We do not offer advice about the options available, or the suitability of our products and services.

Overview

Since April 2016 the annual allowance has been tapered for high income individuals. The definition of 'high income' has changed a few times since tapering was introduced but current rules apply to those with:

- an adjusted income of over £260,000 for the tax year; and
- a threshold income of over £200,000.

For high-income individuals, every £2 of adjusted income above £260,000 will reduce their annual allowance by £1, to a minimum allowance of £10,000 for those with an adjusted income of £360,000 or above.

Previously, different limits applied.

Between 6 April 2016 and 5 April 2020, threshold income was £110,000, adjusted income was £150,000, and tapering could reduce your annual allowance to a minimum of £10,000.

Between 6 April 2020 to 5 April 2023, threshold income was £200,000, adjusted income was £240,000, and tapering could reduce your annual allowance to a minimum of £4,000.

Adjusted income

Adjusted income is all income plus any pension contributions paid in the relevant period. This means that a person would not be able to reduce their adjusted income simply by sacrificing salary or bonus payments in exchange for employer contributions.

Income chargeable to income tax

This is total gross income from all sources, so includes investment income, not just salary. Any reliefs under s24 ITA 2007 can be deducted, except those in respect of pension contributions.

+

Total pension input

All pension contributions are added to the total, including any deductions under net pay arrangements.

-

Personal contributions

Personal contributions can then be deducted.

-

Lump sum death benefit receipts (chargeable to tax)

Any lump sum death benefit where the recipient is liable to tax can be deducted.

If this totals £260,000 or less then the tapered annual allowance will not apply. If the total is more than £260,000 then a check against threshold income is also required.

Threshold income

If adjusted income is more than £260,000 the taper will only take effect if the threshold income limit of £200,000 is also breached. This test is intended to help protect those with spikes in earnings or contributions. If an individual's net income (total income less personal contributions entitled to relief at source) is less than the £200,000 threshold, then they will not normally be subject to the tapered annual allowance. Care is needed though as any salary sacrifice arrangements set up on or after 9 July 2015 are included in the calculation.

Income chargeable to income tax	This is total gross income from all sources, so includes investment income, not just salary. Any reliefs under s24 ITA 2007 can be deducted, except those in respect of pension contributions.
+	
Salary sacrifice/ flexible earnings from 9 July	Any salary sacrifice or flexible earnings set up on or after 9 July 2015 are added to the total.
-	
Personal contributions (relief at source)	Personal contributions entitled to relief at source (gross amount) can then be deducted.
-	
Lump sum death benefit receipts (chargeable to tax)	Any lump sum death benefit where the recipient is liable to tax can be deducted.

Worked examples

Example 1 – tapering does not apply

James has a salary of £180,000 and £20,000 of investment income in the 2025/26 tax year.

His employer makes a contribution of £20,000 and he personally makes a contribution of £20,000.

His **adjusted income** is £220,000.

(£200,000 income chargeable to income tax + £40,000 total pension input - £20,000 personal contribution)

His **threshold income** is £180,000.

(£200,000 income chargeable to income tax - £20,000 personal contribution)

As the adjusted income is below £260,000 James' annual allowance is not tapered.

Example 2 – adjusted income above £260,000

Georgina has salary of £220,000 and investment income of

£10,000 in the 2025/26 tax year.

Her employer makes a £50,000 contribution and she personally makes a contribution of £10,000.

Her **adjusted income** is £280,000.

(£230,000 income chargeable to income tax + £60,000 total pension input - £10,000 personal contribution)

Her **threshold income** is £220,000.

(£230,000 income chargeable to Income Tax - £10,000 personal contribution)

As both the adjusted and threshold income are above the relevant limits Georgina is subject to the taper. Her £20,000 excess income above the adjusted income limit reduces her annual allowance by £10,000 to £50,000.

As her total contributions are £60,000 she would be subject to the annual allowance charge on the £10,000 excess, unless she had carry forward available.

Example 3 – using personal contributions to reduce threshold income

Julian has his own business and has income made up of salary and dividends of £205,000 that is subject to Income Tax in 2025/26.

He maximised his pension contributions in 2022/23 and 2023/24 but made no contributions in 2024/25 due to re-investment in the business.

In 2025/26 he wants to maximise his contribution from the business, making use of his carry forward from 2024/25.

If the employer contributes the full £120,000 (£60,000 in respect of the 2024/25 unused annual allowance, and £60,000 for 2025/26) his situation is:

Adjusted income would be £325,000.

(£205,000 income chargeable to income tax + £120,000 total pension input)

Threshold income would be £205,000.

(£205,000 income chargeable to income tax)

As both the adjusted and threshold income are above the relevant thresholds Julian would be subject to the taper. The £65,000 excess adjusted income reduces the annual allowance for 2025/26 by £32,500 to £27,500.

The excess of £32,500 in 2025/26 would be subject to the annual allowance charge.

Alternatively, Julian could make a personal contribution of £5,000, and his company make an employer contribution of £115,000. In this scenario the situation would be as follows:

Adjusted income would be £320,000

(£205,000 income chargeable to income tax + £120,000 total pension input - £5,000 personal contribution)

Threshold income would be £200,000.

(£205,000 income chargeable to income tax - £5,000 personal contribution)

As the threshold income does not exceed £200,000 Julian's annual allowance would not be tapered so no annual allowance charge would apply.

Maximising employer contributions

As employer contributions are included in the definition of adjusted income, it can be difficult to ascertain the maximum contribution that can be paid without the annual allowance charge being triggered.

This is because the contribution itself reduces the annual allowance available.

For example, someone with income chargeable to income tax of £230,000 cannot benefit from an employer contribution of £60,000 without an annual allowance charge applying. In this scenario, the adjusted income would be £290,000 so the annual allowance would be reduced to £45,000. However, if only a £45,000 employer contribution had been made the adjusted income would be £275,000 and so the annual allowance would be £52,500 but if this amount was contributed by the employer the adjusted income would increase again, further reducing the tapered annual allowance.

The table below contains a sample of the maximum employer contributions that can be paid based on income chargeable to income tax, without triggering a charge where the threshold income is exceeded. This assumes no personal contributions are made and no carry-forward is available.

Income chargeable to income tax	Maximum employer contribution (i.e. annual allowance after tapering)	Adjusted income
£205,000	£58,333	£263,333
£210,000	£56,667	£266,667
£215,000	£55,000	£270,000
£220,000	£53,333	£273,333
£225,000	£51,667	£276,667
£230,000	£50,000	£280,000
£235,000	£48,333	£283,333
£240,000	£46,667	£286,667
£245,000	£45,000	£290,000
£250,000	£43,333	£293,333
£255,000	£41,667	£296,667
£260,000	£40,000	£300,000
£265,000	£38,333	£303,333
£270,000	£36,667	£306,667
£275,000	£35,000	£310,000
£280,000	£33,333	£313,333
£285,000	£31,667	£316,667
£290,000	£30,000	£320,000
£295,000	£28,333	£323,333
£300,000	£26,667	£326,667
£305,000	£25,000	£330,000
£310,000	£23,333	£333,333
£315,000	£21,667	£336,667
£320,000	£20,000	£340,000
£325,000	£18,333	£343,333
£330,000	£16,667	£346,667
£335,000	£15,000	£350,000
£340,000	£13,333	£353,333
£345,000	£11,667	£356,667
£350,000	£10,000	£360,000

Carry forward and the tapered annual allowance

The tapering of the annual allowance does not prevent an individual from using carry forward.

Tapered annual allowance can be carried forward in the same way as the standard annual allowance. The tapered annual allowance is calculated in each tax year so it's possible that someone who is subject to the taper in one year may not be in the next, but if they are carrying forward from a tax year when they were a high earner then only the unused element of the tapered allowance can be carried forward.

For example:

Susan has been a member of a pension scheme for the last three years but took a break from paying in contributions last tax year. This tax year she can pay a contribution of £135,000. She would use up annual allowance from this tax year (2025/26), and then carry forward unused annual allowance from 2022/23 tax year first.

Tax year	Adjusted income	Annual allowance	Contributions paid in	Available unused annual allowance
2025/26	£230,000	£60,000	£0	£60,000
2024/25	£220,000	£60,000	£0	£60,000
2023/24	£310,000	£35,000	£30,000	£5,000
2022/23	£260,000	£30,000	£20,000	£10,000

Interaction with the money purchase annual allowance

The money purchase annual allowance (MPAA) is currently set at £10,000 and is triggered when an individual flexibly accesses their pension benefits.

For high-income individuals, the taper will be applied to the 'alternative annual allowance' against which their defined benefit savings are tested (currently £50,000). This means that individuals with incomes of £360,000 or more will have an alternative annual allowance of nil (£0). Their annual allowance (for money purchase and defined benefit savings combined) will be £10,000.

For example:

In 2022/23 John took a UFPLS payment from his SIPP triggering the MPAA.

John has income chargeable to income tax of £340,000 in 2023/24 but makes no pension contributions. In 2025/26 he retires and his income chargeable to income tax drops to £70,000.

In 2025/26 he has an MPAA of £10,000 plus an alternative annual allowance (for defined benefit savings) of £50,000. He can also carry forward his unused allowance of £10,000 from 2023/24 for defined benefit accrual.

Therefore the maximum total contribution he can make in 2025/26 without suffering an annual allowance charge is £70,000, with a maximum of £10,000 of that being used for contributions to money purchase schemes.

Refunding contributions over the annual allowance

HMRC only allow refunds of contributions in limited, specific circumstances. One is in the case of a 'genuine error', for example if monies were paid to the wrong bank account.

The other scenario is 'excess' contributions where a member has paid personal contributions of more than the maximum that can receive tax relief.

It is important to note the maximum for tax relief purposes is the higher of UK relevant earnings or £3,600. The annual allowance does not affect the amount of tax relief that can be claimed; rather, it is a limit above which a tax charge is imposed that recoups the excess tax relief granted.

As such it is not possible to refund contributions purely on the basis that the annual allowance has been exceeded.

Paying the annual allowance charge

It is the individual's responsibility to tell HMRC if they are liable to the annual allowance charge. If they normally complete a self-assessment, they would include the relevant information on the additional information pages of the tax return. If the individual hasn't completed a tax return previously, they will first need to complete a registration form to let HMRC know what's changed and get a tax return.

If the annual allowance charge for the tax year is more than £2,000 and contributions to one pension scheme have exceeded the annual allowance, the member can tell the scheme administrator of that scheme to pay the annual allowance charge on their behalf (i.e. funds are deducted from the pension scheme). The member must notify the scheme administrator by 31 July in the tax year two years after the tax year to which the annual allowance charge relates. For example, for a charge relating to 2024/25 the notification must take place by 31 July 2026. This is known as 'scheme pays' and the scheme administrator and member are jointly liable for the charge. Compulsory scheme pays only applies when the annual allowance has been exceeded, as opposed to just the MPAA or tapered annual allowance.

For smaller amounts, if the annual allowance has not been exceeded in one particular scheme, or for cases when only the MPAA or tapered annual allowance have been exceeded, the member can ask the scheme administrator to pay under "voluntary scheme pays". It is not a requirement that the scheme administrator pays the charge under these rules and the liability remains with the member. Voluntary scheme pays is available.