

Guide to annual allowance tapering

Overview

The annual allowance for pension contributions is £60,000. However for higher earners this allowance is tapered. This guide outlines the rules and includes case studies to help illustrate how annual allowance tapering affects pension savers.

High-income individuals are defined as those with:

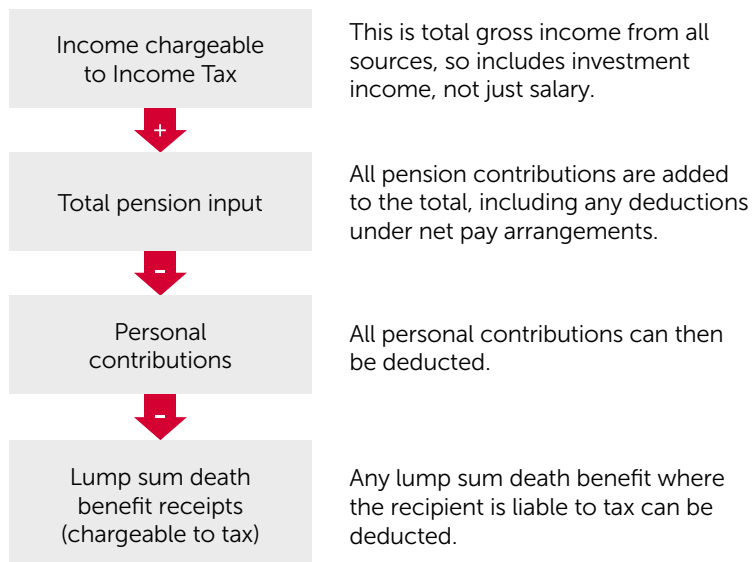
- an 'adjusted income' of over £260,000 for the tax year, and
- 'threshold income' of over £200,000.

For high-income individuals, every £2 of adjusted income above £260,000 will reduce their annual allowance by £1. The maximum reduction will be £50,000, thus reducing the annual allowance to £10,000 for anyone with income of £360,000 or above.

Between 6 April 2020 and 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

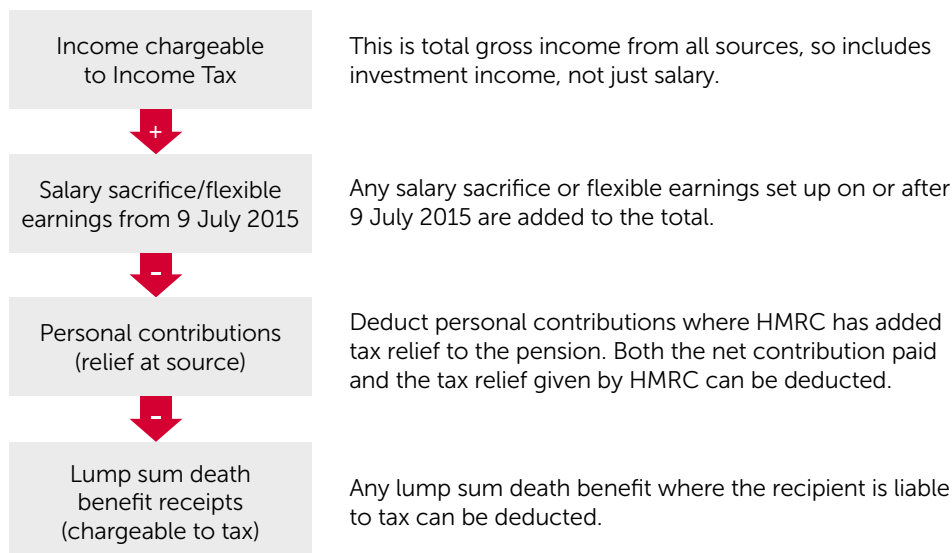
Adjusted income is all income plus any pension contributions paid in the relevant period. This means sacrificing salary or bonus payments for employer contributions purely to reduce your adjusted income for this purpose would be ineffective.



If this totals £260,000 or less then the tapered annual allowance will not apply to you. If the total is more than £260,000 then you need to do a check against your threshold income as explained below.

Threshold income

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



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 2024/25 by £32,500 to £27,500.

The excess of £37,500 in 2024/25 would be subject to the annual allowance charge. Alternatively, Julian could make a personal contribution of £65,000, and his company make an employer contribution of £55,000. In this scenario the situation would be as follows:

Adjusted income would be £260,000

(£205,000 income chargeable to income tax + £120,000 total pension input - £65,000 personal contribution)

Threshold income would be £140,000.

(£205,000 income chargeable to income tax - £65,000 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 you 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 £182,000. 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	£220,000	£60,000	£0	£60,000
2024/25	£210,000	£60,000	£0	£60,000
2023/24	£210,000	£60,000	£0	£60,000
2022/23	£210,000	£10,000	£8,000	£2,000

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 relevant UK 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 your responsibility to tell HMRC if you are liable to the annual allowance charge. If you normally complete a self assessment you would include the relevant information on the additional information pages of the tax return. If you haven't completed a tax return previously, you 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, you can tell the scheme administrator of that scheme to pay the annual allowance charge on your behalf (i.e. funds are deducted from the pension scheme). You 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 2023/24 the notification must take place by 31 July 2025. This is known as "scheme pays" and the scheme administrator and member are jointly liable for the charge.

For smaller amounts, and/or if the annual allowance has not been exceeded in one particular scheme, you can ask the scheme administrator to pay, but it is not a requirement that they do so and the liability remains with you.