
Annual allowance

Information accurate for 2026/7 tax year,
valid until April 2027



Annual allowance

Pension contributions generally offer tax benefits up to a certain limit known as the annual allowance ("AA").

The annual allowance (AA) is the maximum total amount that can be paid into your pension each year by you and a third party, such as your employer without you incurring a tax charge. It applies to your contributions and any made by your employer, together with any other pensions you accrue benefits in.

If you go over the annual allowance, you may have to pay a tax charge on the excess however you can 'carry forward' any unused allowance from the previous three tax years.

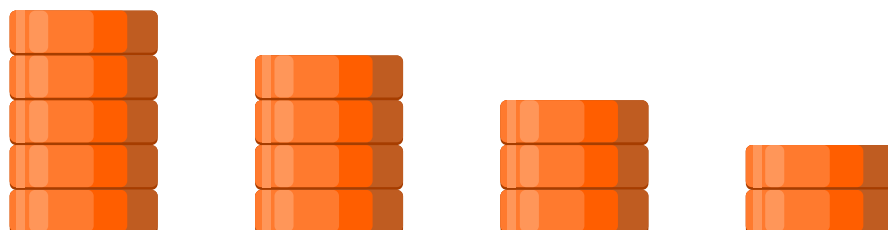
For most people the AA is £60,000 for the current tax year however a lower "tapered" AA applies if you have 'threshold' income over £200,000 and 'adjusted' income in excess of £260,000.

What are 'threshold' and 'adjusted' income?

Broadly speaking, threshold income is earned and unearned income in the tax year. This will include salary, allowances, bonus, profits from self-employment, P11D, pension income, income from property, interest on any savings and dividend income less any charitable donations. From this amount you then need to

- Deduct any pension contributions you made directly to a personal pension provider either by direct debit or if they were deducted from your take home pay by your employer and paid to the pension as an employee contribution.
- Add on any pension contributions you paid using a salary sacrifice arrangement where this was first set up on a date on or after 9th July 2015.

The result of this calculation is your threshold income. If this is less than £200,000 you will have the full standard AA of £60,000.



Tapered annual allowance

If your threshold income exceeds £200,000 in the tax year, you need to calculate your “adjusted income” for the tax year. This is the amount of your threshold income PLUS the value of all pension contributions except amounts paid by salary sacrifice where the agreement was set up AFTER 9th July 2015 (as they have already been included in the threshold income calculation).

If your adjusted income exceeds £260,000 a tapered annual allowance will apply to you.

How does tapering work?

The way tapering works is that for every £2 of adjusted income that exceeds £260,000, £1 of annual allowance will be lost. There is a cap to the tapering of £50,000, which means that the minimum tapered annual allowance is £10,000.

If you have a threshold income of £200,000 or less, you will not be subject to the tapered annual allowance even if your adjusted income is greater than £260,000. If you have a threshold income of £200,001 or more, AND an adjusted income of £360,000 or more, your tapered annual allowance will be £10,000.

Example 1

Threshold income	£250,000
Expected total pension contributions	£20,000
Adjusted income	£270,000
Working out	$(£270,000 - £260,000)/2$ $= £5,000$
Tapered annual allowance	$£60,000 - £5,000$ $= £55,000$

Example 2

Threshold income	£340,000
Expected total pension contributions	£20,000
Adjusted income	£360,000
Working out	$(£360,000 - £260,000)/2$ $= £50,000$
Tapered annual allowance	$£60,000 - £50,000$ $= £10,000$

Note: Contributions exceed TAA – Tax may be payable on £10,000 of pension contributions

What do you need to do now?

You will need to establish your “threshold income” for each tax year. If your threshold income exceeds £200,000, you will need to assess your “adjusted income”. It is appreciated that some potential amounts may not be known until towards the end of the tax year (or possibly even after the tax year ends).

Tapered annual allowance

Adjusted income	Tapered annual allowance
£260,000 or less	£60,000
£270,000	£55,000
£280,000	£50,000
£290,000	£45,000
£300,000	£40,000
£310,000	£35,000
£320,000	£30,000
£330,000	£25,000
£340,000	£20,000
£350,000	£15,000
£360,000 or more	£10,000

What happens if I have exceeded the amount of AA I have?

If you exceed the annual allowance in the current tax year, you are allowed to reduce the excess by any unused allowance you have in the previous three tax years by 'carrying forward' this unused allowance. See the Carry Forward section below.

If, after applying any permitted unused allowances from the previous three years you still have any excess, you have to declare this excess amount on your self-assessment tax return and will have to pay back the tax relief you received on these contributions known as the Annual Allowance Charge.

Carry forward

You can carry forward any 'unused' annual allowances from the previous three tax years, though you can only use unused allowances once. However, even when carrying forward unused allowance, the amount that you can pay into your pension, and receive tax relief on, is limited to 100% of your earnings in the tax year the payment is made.

To use carry forward, you must make the maximum allowable contribution in the current tax year; you can then use unused annual allowances from the three previous tax years, starting with the tax year three years ago.

Remember when calculating previous years unused allowance that tapering may also apply in these years. Therefore you will need to be able to calculate your threshold and adjusted income for the relevant tax years in order to have an accurate understanding of the level of unused allowance you can carry forward.

Paying the annual allowance charge

If having calculated your tapered annual allowance and fully utilised any carry forward available, you still have an excess over your permitted AA, then you will have a tax charge to pay. This is calculated by entering the required information into your self-assessment tax return. If the tax charge is below £2,000, this can either be settled by payment to HMRC or by requesting an adjustment to your income tax code to repay this amount.

If the tax charge exceeds £2,000 you could potentially utilise your pension savings to meet this charge, known as 'Scheme Pays'. This will result in a reduction to your pension benefits and there are some rules relating to Scheme Pays which means that it may not be an option for you even if your annual allowance charge exceeds £2,000.

Scheme pays

The scheme pays rules are a mandatory requirement on all registered pension schemes. The scheme has to provide the facility for the scheme to pay your tax charge if:

- Your total pension input (contributions) exceeds the standard annual allowance of £60,000
- The amount of tax charge due is greater than £2,000.

If you meet these criteria, then you need to inform and receive confirmation from the pension scheme administrator that they will meet the tax charge on your behalf prior to submitting your self-assessment tax return by the 31st January of the year following the end of the tax year to which the charge applies (i.e. by 31st January 2027 for the 2025/26 tax year).

Voluntary scheme pays

It is possible to have an annual allowance tax charge liability to pay but not meet the criteria to use the mandatory scheme pays rules. For example, you may be subject to a tapered AA and have pension inputs above your tapered AA amount resulting in a tax charge, but have not exceed the standard annual allowance.

Some pension schemes may provide the option for you to request that they pay such a charge despite not having met the scheme pays rules which is known as 'voluntary scheme pays'. As it is not compulsory for schemes to offer such an arrangement you should ensure that you contact your to establish whether they offer this option. Additionally, if you are utilising a voluntary scheme pays you still have to settle the charge by 31st January of the year after the end of the tax year the charge is due for rather than the 31st July deadline that applies for mandatory scheme pays rules.

Further information regarding the Tapered Annual Allowance can be found on the Gov. UK website using this link: PTM057100 - Annual allowance: tapered annual allowance - HMRC internal manual

More information about tapered annual allowance

There is more information about the tapered annual allowance on the Government backed Money Helper website here:
<https://www.moneyhelper.org.uk/en/pensions-and-retirement/tax-and-pensions/tapered-annual-allowance>

If you are in any doubt about whether a tapered Annual allowance applies to you or if you have an annual allowance charge to pay you should seek the advice of a financial advisor.

If you need further help understanding this matter and how it might impact you, we're here to help.



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Making changes with your pensions and investments may have tax consequences and it is important to bear in mind that this document is produced as a guide only; NFP does not provide tax advice and this document is not intended to provide advice. The level of taxation applicable depends on individual circumstances and such levels and bases of taxation can change. It is your responsibility to ensure that you understand any applicable tax consequences and should consider taking professional tax advice if necessary.

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