

BOOLERS TECHNICAL UPDATE

APRIL 2026

TAPERING OF THE ANNUAL ALLOWANCE

What is the Annual Allowance?

The **Annual Allowance** is the maximum amount of pension input, i.e. contribution that can be made in a tax year without attracting a tax charge.

The standard annual allowance from April 2023 is £60,000 (prior to this the allowance was £40,000).



CAROLE WAGHORNE
HEAD OF PENSIONS

Tapering of Annual Allowance

Tapering restricts how much high earners can pay into a pension each year without attracting a tax charge, i.e. it reduces their annual allowance in a tax year down to as little as **£10,000**.

The income definitions which apply are as follows:-

ADJUSTED INCOME is total income before tax from all sources *plus* pension contributions made by the employer *plus* pension contributions made under a 'net pay' arrangement.

THRESHOLD INCOME is total income before tax from all sources *plus* the amount of employment income given up for pension provision via a salary sacrifice arrangement (started on or after 9 July 2015), *less* the gross amount of any personal contributions paid into a pension scheme.

Individuals with **Adjusted income** greater than £260,000 in a tax year will have their annual allowance reduced for that year, by £1 for every £2 earned over £260,000. The following table demonstrates this a little better:-



RICHARD BORRINGTON
FINANCIAL PLANNER

Adjusted Income	Tapered Annual Allowance
£260,000	£60,000
£280,000	£50,000
£300,000	£40,000
£320,000	£30,000
£340,000	£20,000
£360,000 and over	£10,000



CHRIS WARD
PENSIONS MANAGER

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If your threshold income is £200,000 or less, then you will not be affected by tapering, irrespective of your adjusted income figure.

So by making a personal contribution into a pension plan, you may be able to reduce your threshold income to below £200,000, so that you are not affected by tapering.

Equally, a business owner may decide to make an employer pension contribution for themselves from pre-tax profits. This contribution will not be treated as salary sacrifice, as it is not a contractual entitlement, so it will not be included in the threshold income calculation.

Individuals who are subject to tapering can still carry forward unused relief from previous years, to increase the amount of relievable pension contribution that can be made. Equally, you can carry forward unused relief from a 'tapering year', but only the balance of your tapered amount.

Tapering in previous tax years

Prior to April 2023, the numbers looked quite different. Annual Allowance was lower, the Adjusted Income figure was lower and tapering halted when earnings got to a lower amount.

The following table demonstrates these changes:

Adjusted Income	Tapered Annual Allowance 2023/24	Tapered Annual Allowance 2020/21-2022/23
£240,000	£60,000	£40,000
£260,000	£60,000	£30,000
£280,000	£50,000	£20,000
£300,000	£40,000	£10,000
£320,000	£30,000	£4,000
£340,000	£20,000	£4,000
£360,000 and over	£10,000	£4,000

If you are carrying forward unused relief from a previous tax year in which you were a high earner, you can only carry forward the tapered annual allowance.

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What if I exceed the Annual Allowance?

Tax relief is only available up to the annual allowance. If your pension input exceeds the annual allowance, then any excess may be subject to a tax charge at your marginal rate of tax, if there is no carry forward available. This is to ensure that any tax relief that has been granted on the pension input is removed.

Money Purchase Annual Allowance

Please note, if you have flexibly accessed your benefits, e.g. received an UFPLS, income from Flexi-Access Drawdown or a flexible annuity, then your ongoing contribution into a money purchase scheme is restricted to just **£10,000 p.a.** with no carry forward ability.

Examples of how tapering works

Example 1. John has total income of £240,000 and his employer pays £60,000 into his SIPP. His adjusted income is £300,000, which means that tapered annual allowance will be £40,000 for the year. The contribution of £60,000 paid by his employer exceeds John's annual allowance by £20,000, so John will personally pay tax on the excess contribution of £20,000.

Example 2. Kathy earns £210,000 and has additional taxable income of £40,000. Her employer pays an £18,000 pension contribution into the company net pay pension plan, which she matches. Her adjusted income for the year is £268,000, so she thinks that she will be affected by tapering. However, her threshold income calculation is £210,000 less her own pension contribution of £18,000, so threshold income is actually £192,000, meaning that Kathy will not be affected by tapering.

Example 3. Billy runs his own business and has income of £190,000. He has had a successful year and decides to pay an employer pension contribution of £90,000 into his SSAS, making use of carry forward of unused tax relief. His adjusted income is £280,000, but as his threshold income figure is £190,000, Billy will not be affected by tapering.

This article is based on our interpretation of the current law and HMRC practice, which is subject to change, and does not constitute nor is to be construed as advice. If advice is required please contact your usual consultant.