

Keeping it Brief

Tapered annual allowance

Since April 2016, there has been a tapering of pension tax relief for ‘high income individuals’ defined as someone who, in a tax year, has:

- ‘Threshold income’ of more than £200,000; and
- ‘Adjusted income’ of more than £260,000.

The definitions of both threshold and adjusted income are fairly complicated but, broadly speaking, are as follows:

Threshold income	Adjusted income
Total taxable income	Total taxable income
Plus the amount of any salary sacrifice entered into after 8 July 2015	Plus the value of any employer contributions
Less the gross value of any contributions deducted net of basic rate tax relief from net pay	Plus employee contributions deducted from gross salary before the calculation of tax and National Insurance contributions

Both threshold and adjusted income include taxable income from all sources, not just employment income. For example, this could include investment income or rental income from property you own.

If both the limits on threshold income and adjusted income are exceeded, for every £2 of adjusted income over £260,000, an individual’s annual allowance (AA) is reduced by £1, subject to a minimum tapered AA of £10,000.

Example calculations are shown later.

If you are affected by the reduction in the AA as a high-income individual, you may still carry forward any unused AA from the last three tax years. Please see separate **‘Keeping it brief... Carry forward’**.

If you have no unused AA available, review your overall contributions and assess whether paying contributions in excess of your AA each tax year remains tax efficient.

Example 1

Income

Member has:

- £85,000 taxable basic salary;
- £30,000 bonus;
- £14,000 rental income;
- £6,000 dividend income for the tax year;
- and is a member of a defined contribution pension scheme.

Pension contributions

Total contributions for the tax year, employer and employee, (using salary sacrifice pre 9 July 2015), are £40,000.

Assessment for tapering

Threshold income:

$$£85,000 + £30,000 + £14,000 + £6,000 = £135,000$$

As threshold income is below £200,000, tapering doesn't apply.

Example 2

Income

Member has:

- £175,000 taxable basic salary;
- £40,000 bonus;
- £15,000 rental income;
- £10,000 dividend income for the tax year;
- and is a member of a defined contribution pension scheme.

Pension contributions

Total contributions for the tax year, employer and employee, (using salary sacrifice pre-9 July 2015), are £50,000.

Assessment for tapering

Threshold income:

$$£175,000 + £40,000 + £15,000 + £10,000 = £240,000$$

Threshold income above £200,000 and so tapering may apply.

Adjusted income calculation

$$£175,000 + £40,000 + £15,000 + £10,000 + £50,000 = £290,000$$

AA is reduced by:

$$(£290,000 - £260,000) / 2 = £15,000$$

AA for the tax year:

$$(£60,000 - £15,000) = £45,000.$$

There could be a potential tax charge if current pension contributions are continued.

The excess payment of £5,000 is taxed at the marginal rate of income tax of 45% (48% if you are a Scottish taxpayer) therefore results in a tax charge of £2,250 (£2,400 if you are a Scottish taxpayer).

This charge may be avoided if the member has unused AA from the 3 previous tax years to carry forward (please see separate '**Keeping it brief... Carry forward**') of at least £5,000.

Further information can be found at www.gov.uk/tax-on-your-private-pension/annual-allowance

If you think that you may be affected, you should seek further information and consider taking financial advice. You should be aware that an adviser will normally charge for using their services. If this is something you would like to discuss, please contact Second sight at enquiries@second-sight.com.

Please note:

This briefing note gives an overview only. It does not provide specific advice. It is based on our understanding of tax regulations for the 2025/26 tax year which may change in the future.

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Pension income can also be affected by interest rates at the time benefits are taken. Pension savings are at risk of being eroded by inflation.

The tax treatment of pensions in general will be based on individual circumstances, tax legislation and regulation, which are subject to change in the future.

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