TAPERED ANNUAL ALLOWANCE – WHAT YOU NEED TO KNOW

HARGREAVES LANSDOWN

Some people with higher incomes will have their pension annual allowance tapered, reducing how much they can pay into their pension tax-efficiently.

This factsheet explains who's affected and how to calculate your allowance.

WHAT IS THE ANNUAL ALLOWANCE?

The annual allowance is the maximum total contribution an individual can receive into their pensions in one tax year, without incurring a tax charge.

For most people, the allowance is £60,000. The current tax year runs from 6 April 2025 to 5 April 2026.

WHAT'S THE TAPER?

Put simply, the annual allowance is reduced for most people with **Adjusted Income** (see opposite) above £260,000 a year. This measure has applied since 6 April 2016 but the rules have been changed twice, once with effect from 6 April 2020 and again from 6 April 2023.

WHO IS NOT AFFECTED?

If **Threshold Income** (see opposite) is £200,000 or less, these rules do not apply.

SO HOW DOES IT WORK?

For every £2 of **Adjusted Income** (see opposite) over £260,000, the annual allowance will be reduced by £1.

Once Adjusted Income is over £360,000, the annual allowance stays at £10,000 – there is no further reduction. The table below shows some examples for the 2025/26 tax year:

Adjusted Income	Annual Allowance
£260,000 or less	£60,000
£300,000	£40,000
£340,000	£20,000
£360,000 or more	£10,000

WHAT IS 'THRESHOLD INCOME'?

This is any taxable income **minus** certain reliefs*.

Threshold Income includes taxable earnings from the workplace, such as salary, bonus payments, benefits-in-kind, and commission.

However, the workplace may not be your only source of income. Threshold Income also includes:

- Most rental income
- Dividend payments
- Interest on savings
- Self-employed earnings.

Please note this is not an exhaustive list.

The gross amount of any personal contributions to a pension should also be **deducted**.

Important: Salary/Bonus Sacrifice arrangements reduce income. However, any contributions made via Salary/Bonus Sacrifice (or by flexible remuneration), must be **added** to Threshold Income if:

- The arrangement started, or is renewed, on or after 9 July 2015 **or**
- Contributions are increased on or after 9 July 2015 (this could be the whole amount or just the increase depending on the exact wording of your salary sacrifice agreement).

WHAT IS 'ADJUSTED INCOME'?

This is any taxable income **minus** certain reliefs* (as for Threshold Income above).

However, this time you do not deduct personal contributions to a pension – but you **must include** the following:

- Employer pension contributions (including the value of **any** contributions made via 'Salary Sacrifice', whenever this was arranged)
- Contributions to occupational/trust-based pension schemes, paid through a net pay arrangement (which would otherwise reduce taxable income)
- Pension Input Amounts for a Defined Benefit (e.g. Final Salary) scheme. Please note in this case, the cost of employee contributions to these schemes must be **deducted**.

* A list of applicable reliefs can be found in section 24 of the Income Tax Act 2007. If you are unsure whether any of these reliefs are applicable to you, you should consult your accountant or HMRC.

IMPORTANT INFORMATION

This factsheet is for your information only and is not personal advice. It is based on our understanding of current legislation which can change and is correct as at 28 March 2025. If you are in any doubt whether a particular course of action is suitable for your circumstances, you should ask for financial advice. Tax rules can change and benefits depend on individual circumstances. The value of investments can rise and fall, so you could get back less than you invest.

EXAMPLE 1: Harry

Harry's salary is £210,000.

He makes personal contributions of 8% of his salary to a company pension. His employer also contributes 8%.

Harry also owns a buy-to-let property. He receives a taxable rental income of £12,000 each year.

Threshold Income = £205,200
(salary + rental income – personal pension contributions)

Adjusted Income = £238,800
(salary + employer contribution + rental income)

As his Adjusted Income is below £260,000, **he will not be subject to the taper.** This means Harry will have an annual allowance of £60,000.

EXAMPLE 2: Diane

Diane's salary is £240,000.

After contributing 10% to her company pension (via a 'Salary Sacrifice' arrangement which has been in place since 2014), her actual salary is £216,000. Her employer contributes a further 15%.

Diane also holds shares which pay her a dividend income of £10,000 a year.

Threshold Income = £226,000
(salary after salary sacrifice + dividend income)

Adjusted Income = £286,000
(salary after salary sacrifice + employer contribution (including those made via 'Salary Sacrifice') + dividend income)

This means Diane's annual allowance **will be tapered to £47,000.**

However, she may be able to contribute more than her reduced annual allowance by using 'Carry Forward'. Our Annual Allowance & Carry Forward Factsheet explains more.

EXAMPLE 3: Olivia

Olivia's salary is £210,000.

She receives a bonus of £60,000. She takes advantage of this by making a personal pension contribution of £75,000 (using 'Carry Forward'). Her employer also contributes 8% to the pension.

Threshold Income = £195,000
(salary + bonus – personal pension contributions)

Adjusted Income = £286,800
(salary + bonus + employer contributions)

Olivia will not be subject to the taper and so will have an annual allowance of £60,000. This is because, although her Adjusted Income is above £260,000, her Threshold Income is below £200,000.

The example scenarios above are based on contributions to Group Personal Pensions which have remained unchanged since 8 July 2015. These scenarios relate to the 2025/26 tax year and assume no pension withdrawals have been made.

WHAT HAPPENS IF I EXCEED THE ANNUAL ALLOWANCE?

If you exceed the annual allowance, the total excess will be added to your income for the relevant tax year, and taxed at your highest rate. This charge should be declared and paid through income tax self-assessment. If the charge is over £2,000 and you have exceeded £60,000 in a single pension, you could instead choose to have it deducted directly from your pension pot.

It may be possible for you to reduce or eliminate the excess by using 'Carry Forward' – our Annual Allowance & Carry Forward Factsheet explains more.

HARGREAVES LANSDOWN PROVIDES THE FOLLOWING SERVICES:

✓ Financial Advice

Our team of Financial Advisers can help with wealth management and planning, for an additional fee.

- Financial Advisers based around the country
- All our advisers are salaried employees of Hargreaves Lansdown, not on commission.
- Because of the scale, pricing power and efficiency of our business, our fees are highly competitive.

✓ Individual Savings Accounts (ISAs)

You can invest up to £20,000 (2025/26 tax year) tax-efficiently each year. The annual ISA allowance is per individual. This means a husband and wife, for example, can put up to £40,000 between them into ISAs this tax year.

We provide access to an award-winning Stocks and Shares ISA, a Lifetime ISA, and a Junior ISA (with a further £9,000 allowance) – all of which can be managed in one convenient place.

✓ Fund and Share Account

For those who have used their pension and ISA allowances but still want to invest further, we offer a Fund and Share Account - a low cost, flexible investment account that allows you to deal, manage and hold a wide range of investments.

CONTACT US

If you'd like to learn more about the rules, or any of the services we offer, please contact us:

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