

# Pension Annual Allowance



The 6th April heralds the start of the new tax year thereby resetting the annual allowance for pension contributions. Tax relief on pension contributions can be significant, particularly for higher and additional rate tax payers, but the rules on contribution limits are not straightforward.

In particular, those with higher levels of taxable income are subject to a tapering of their annual contribution allowance. This applies to individuals with income (which for this purpose includes all pension contributions) over £150,000 pa and taxable income excluding pension contributions over £110,000.

When the annual allowance is exceeded, a tax charge is triggered. It is therefore important to seek advice.

## What is the Annual Allowance?

The Annual Allowance is the annual total amount of personal and employer contributions that can be paid into money purchase pensions and benefits accrued in defined benefit pensions without suffering a tax charge. The current standard allowance is £40,000.

**“Individuals with income of £210,000 will see their annual allowance cut by £30,000.”**

The Annual Allowance is tapered for individuals with high total taxable income; it is reduced by £1 for every £2 of ‘adjusted income’ over £150,000, until it drops to £10,000.

# Briefing note: Pension Annual Allowance

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## The Annual Allowance Charge

When the Annual Allowance is exceeded, a charge is triggered. This Annual Allowance charge is an income tax charge at up to the individual's highest marginal rate.

**“Where the excess pension contribution is caused by an employer, it's effectively an income tax charge on a non-cash benefit.”**

The Annual Allowance is tested against more than just an individual's own contributions. It doesn't matter whether the excess amount is caused by a personal contribution, employer contribution, or an increase in pension benefit accrual as part of a final salary/defined benefit scheme.

Normally deferred members of final salary schemes do not have their increase in benefits tested against the Annual Allowance. Sometimes, however, although an individual may not be accruing any additional pensionable service, they may still be in employment with their ultimate pension linked to their salary at the date they take benefits. This accrual can count towards the Annual Allowance, something which is easy to miss.

Individuals with current and deferred pension benefits should seek advice regularly, regardless of whether they are actively contributing to pension plans.

## Who does the tapered annual allowance apply to?

The Annual Allowance is tested against 'adjusted income' over £150,000.

If adjusted income exceeds £150,000 in the tax year, the Annual Allowance is reduced (unless threshold income is £110,000 or less – see below).

Total income before tax from all sources and all pension contributions (including employer) are included in the adjusted income figure. It can catch out individuals who consider their actual income to be below £150,000, if employer contributions are not added back in.

There is therefore a second 'threshold income' test available for those who find themselves subject to an unexpected increase in their pension funding. If threshold income is £110,000 or less, the Annual Allowance is not adjusted.

Threshold income is income before tax from all sources including income given up under a salary sacrifice agreement made after 8 July 2015. The value of an individual's own pension contributions is deducted (and employer contributions are not included).

This test helps those caught out simply because their pension contributions take them over the £150,000 limit even though their actual earnings might be lower. So, even if their adjusted income exceeds £150,000, their Annual Allowance won't be reduced if their 'threshold income' is £110,000 or less for the tax year.

## What can be done?

Individuals earning over £150,000 (or with total income including savings and investment income) and making pension contributions should be taking advice on:

- Whether intended future contributions (incl. from an employer) will trigger a charge
- Carrying forward any unused annual allowance from the previous three tax years
- Whether they should be making other adjustments to their earnings to pass the allowance tests

## How we can help

Pensions continue to be an attractive long-term investment vehicle, especially now they can, in many cases, be accessed more easily on retirement and passed on tax efficiently to beneficiaries. We can help individuals with planning the appropriate level of pension contributions in order to avoid charges.

## Next briefing note: avoiding the annual allowance charge

With careful planning, individuals may be able to avoid or reduce the annual allowance charge by using unused allowance from previous tax years, using [Carry Forward](#).

# Important Information

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