

The Annual Allowance (AA) & Tapered Annual Allowance (TAA)

April 2020

The UK Government places restrictions on how much you can pay into a pension each tax year tax free – known as the Annual Allowance (AA). The standard Annual Allowance is currently £40,000 per tax year and both employer and personal contributions are considered for the AA.

However, since April 2016 the standard AA gradually reduces down for high earners (known as the 'Tapered Annual Allowance') and when these rules were introduced, it affected all high earners who have "threshold income" of £110,000 and an 'adjusted income' of £150,000 or more. The lowest TAA that could apply was £10,000 per tax year.

Broadly speaking threshold income includes all taxable income Adjusted income is similar, but this time includes any pension contributions made by you and your employer. Full details are available [here](#).

The rule changes introduced from 6th April 2020 was **good news** for many as the threshold and adjusted income increased by £90,000 to £200,000 and £240,000 respectively. This should mean **less** people are now impacted by TAA and more will be entitled to the full standard Annual Allowance (AA) of £40,000 p.a. However, there were some losers as the lowest TAA has been reduced further for the highest earners – for those with adjusted income exceeding **£300,000 per year**, the ability to make tax efficient pension savings continues to taper down below £10,000, with employees with adjusted income of £312,000 or more subject to a TAA of **£4,000 each tax year**.

For the upcoming 2021/22 tax year, all pension savers who have a threshold income of £200,000 and an 'adjusted income' of £240,000 or more will be affected. Those with adjusted income of less than £240,000 will have the full standard AA of £40,000. For every £2 of earnings above an adjusted income level of £240,000, you lose £1 of the standard Annual Allowance. The minimum tapered amount that applies to all pension savers is £4,000 per tax year.

If you exceed your Annual Allowance, the excess is subject to income tax at your highest marginal rate.

An example of the limits is below:

| Adjusted Income | Annual Allowance |
|-------------------|------------------|
| Up to £240,000 | £40,000 |
| £260,000 | £30,000 |
| £280,000 | £20,000 |
| £300,000 | £10,000 |
| £312,000 and over | £4,000 |

Don't forget – you may be able to pay contributions above your allowance where you can use the 'three year carry forward' rule. Carry forward allows you to utilise unused allowances from the previous three tax years, providing you were a member of a registered pension scheme during those three years and have earnings to cover 100% of your contribution in the tax year.

You can find out more about carry forward [here](#) – please remember that the TAA rules changed on 6 April 2020.