

Tapered Annual Allowance

What is Tapered Annual Allowance?

Tapered Annual Allowance is the name given to the reduction of your Annual Allowance if you are a high earner whose taxable income is over £260,000.

Who will Tapered Annual Allowance affect?

There are two measures of income which will determine whether you have your Annual Allowance reduced or not. These measures are called 'Threshold Income' and 'Adjusted Income'.

What is Threshold Income?

Threshold Income is calculated for high earners and the limit is £200,000. If your Threshold Income is less than £200,000 then no further action is needed.

Threshold income is calculated by adding and subtracting the types of income below:

Add together

- Earned income: pre-tax salary, bonus, benefits in kind, pension income
- Investment income: dividends, interest, property/rental income (less reliefs)
- Salary sacrifice arrangements established after 09/07/2015

And subtract

- Reliefs that may be deducted (e.g. share loss relief and gift of shares to charities)
- Some pensions contributions
- Basic tax relief on personal pension contributions
- Lump sum death benefit payment taxed in year

What is Adjusted Income?

If your Threshold Income exceeds £200,000 then your adjusted Income needs to be calculated. If your Adjusted Income is less than £260,000 then no further action is needed.

Adjusted Income is calculated by totalling the types of income below:

Add together

- Earned income: pre-tax salary, bonus, benefits in kind, pension income
- Investment income: dividends, interest, property/rental income (less reliefs)
- Employer pension contributions (including salary sacrifice established on or after 09/07/2015)
- Employee pension contributions and tax relief added and claimed by tax return (including individual overseas pensions)

And subtract

- Gifts to charity
- Salary sacrifice arrangements prior to 09/07/2015

What if my Adjusted Income exceeds £240,000?

If your adjusted Income exceeds £260,000:

Tax relief is still available for contributions at highest marginal rate of income tax.

Annual Allowance reduced by £1 for every £2 of income over £260,000 of adjusted income.

If your Adjusted Income is £360,000 or higher your Annual Allowance is reduced to £10,000.

There is the potential to 'carry forward' unused Annual Allowances from the last three years.

Pension contributions over the Annual Allowance are taxed. This means adding contributions over the Annual Allowance to your income and taxing this at your highest marginal rate.

This is a personal taxation issue and you need to account for this on your self-assessment.

Example of Threshold Income

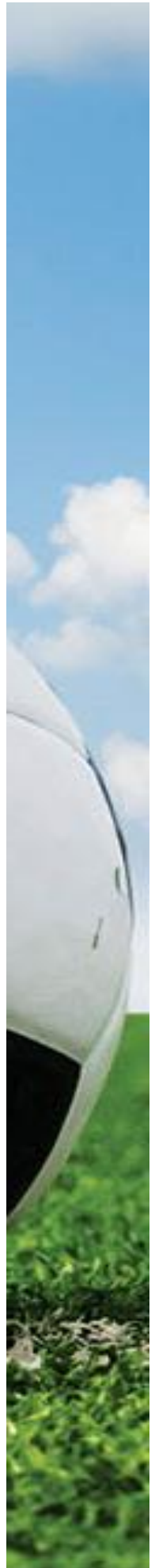
			Threshold Income	Adjusted Income
Earned Income:	£190,000	Salary	£190,000	n/a
Investment income:	£5,000	Rental income	+£5,000	n/a
	£4,000	Dividends	+£4,000	n/a
Pension contributions	£50,000	Including £10,000 salary sacrifice established before 9 July 2015 and carry forward of £10,000 from previous year)	+£0	n/a
Total:	£249,000		£199,000	n/a

* As the Threshold income is below £200,000 no further action is required.

Example of Adjusted Income

			Threshold Income	Adjusted Income
Earned income:	£210,000	Salary	£210,000	£210,000
Investment income:	£10,000	Rental income	+£10,000	+£10,000
	£10,000	Dividends	+£10,000	+£10,000
	£5,000	Interest	+£5,000	+£5,000
Pension contributions	£35,000		+£0	+£35,000
TOTAL	£270,000		£235,000	£270,000

*In this example the Threshold Income is more than £200,000 and the Adjusted Income needs to be calculated. The Adjusted Income is £270,000 which is £10,000 over the limit and the annual allowance is reduced. For every £2 over £260,000 the Annual Allowance reduces by £1. As the Adjusted Income is over the limit by £10,000, the Annual Allowance reduces by £5,000 from £60,000 to £55,000.





Further examples:

If the adjusted Income is £260,000, the Annual Allowance will remain at £60,000.

If the adjusted Income is £280,000, the Annual Allowance will be reduced by £10,000 and will be set at £50,000.

If the adjusted Income is £300,000, the Annual Allowance will be reduced by £20,000 and will be set at £40,000.

If the adjusted Income is £320,000, the Annual Allowance will be reduced by £30,000 and will be set at £30,000.

If the adjusted Income is £340,000, the Annual Allowance will be reduced by £40,000 and will be set at £20,000.

If the adjusted Income is £360,000 or more, the Annual Allowance will be reduced by £50,000 and will be set at £10,000.

Additional Information

At present, there are no plans to reduce to the contribution rate for members.

It is your responsibility to keep track of the Annual Allowance that you have used.

The Scheme will continue as normal and will comply with regulations. If you make personal contributions (also known as Additional Voluntary Contributions) into the scheme, we will issue a statement to you if you breach the Standard Annual Allowance.

If you have a Tapered Annual Allowance of under £60,000 per year, the contribution rate will continue at £6,420 per year. If you exceed the limit and receive a tax charge of over £2,000, Scheme Pays is available to you.

Scheme Pays is a process which can be used when the Annual Allowance is exceeded and an Annual Allowance tax charge is due. The Pension Scheme can pay the charge to HMRC on your behalf however the charge would then be deducted from your final benefits upon retirement.

Please Note

This is a complicated subject and it is highly recommended that you seek financial advice where necessary.