

Annual Allowance Factsheet



Annual Allowance

What is the Annual Allowance?

The annual allowance is the maximum you or someone else e.g. your employer, can contribute to your pensions in one year, while benefitting from tax relief.

For tax year **2024/25** the annual allowance is **£60,000**, although there are exceptions to this rule for those with a 'threshold income' of more than **£200,000** and an 'adjusted income' of more than **£260,000** in tax year **2024/25** or for those who have not fully utilised their annual allowance in the previous three tax years.

The annual allowances over the past three tax years along with the 'threshold' and 'adjusted' income limits are as follows:

Tax Year	Annual Allowance	Threshold Income Limit	Adjusted Income Limit
2023/24	£60,000	£200,000	£260,000
2022/23	£40,000	£200,000	£240,000
2021/22	£40,000	£200,000	£240,000

Annual Allowance Carry Forward

Legislation allows an individual to carry forward unused annual allowance from the three previous tax years. There are however caveats to this:

1. You must use your full annual allowance in the current tax year before you can utilise unused annual allowances.
2. To benefit from tax relief, the pension contribution in tax year 2024/25 cannot exceed 100% of your earnings. For example, if you had an annual allowance in 2024/25 of £60,000 plus an unused allowance in 2021/22 of £20,000, but only have an income of £70,000, then you could contribute £80,000, however only £70,000 would receive tax relief.
3. You must have been a member of a UK-registered pension scheme in each of the tax years from which you wish to carry forward, even if you did not make contributions or were already taking benefits.
4. The annual allowance in the previous years may be reduced by the tapered annual allowance if your income exceeded the 'threshold' and 'adjusted' income limits in those years.

Tapered Annual Allowance

What is the Tapered Annual Allowance?

The tapered annual allowance is a reduction in the annual allowance for those with a 'threshold income' of more than £200,000 and an 'adjusted income' of more than £260,000 in tax year 2024/25.

If you are in that category, then your annual allowance of £60,000 reduces by £1 for every £2 you exceed the 'adjusted income' limit of £260,000. This figure is reduced to a minimum of £10,000. Therefore, if your 'adjusted income' is more than £360,000 then your annual allowance becomes £10,000. This also applies in the previous tax years where carry forward might be an option. It is important to note, that tax years 2021/22 and 2022/23 the annual allowances reduced by £1 for every £2 you exceeded an 'adjusted Income' limit of £240,000 down to £4,000.

What is Threshold Income?

Threshold income is your total taxable income for the year, excluding your pension contributions.

If your total threshold income does not exceed £200,000 then there is no need to calculate adjusted income because you would not be affected by the tapered annual allowance.

If your threshold income exceeds £200,000, then you must work out your adjusted income to see if it exceeds £260,000.

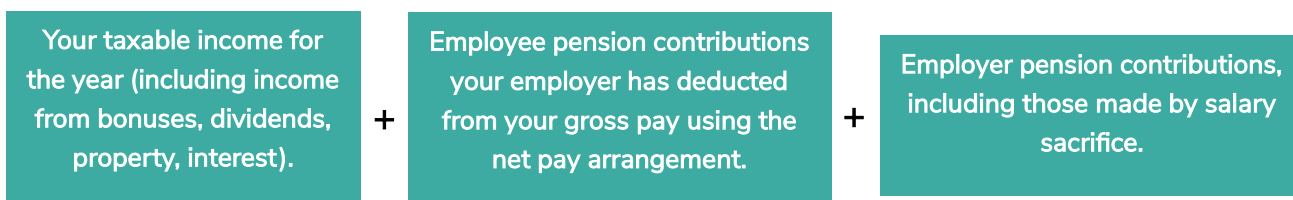
For example:

Your taxable income from the year (including income from bonuses, dividends, property, interest).	+	The value of any income you gave up in exchange for pension contributions using salary sacrifice.	-	The gross amount of personal pension contributions you paid from your net income where the provider reclaimed basic rate tax on your behalf.
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What is Adjusted Income?

Adjusted income is your total taxable earnings including pension contributions.

An example of the calculation is as follows:



What happens if you exceed your Annual Allowance?

If you exceed your annual allowance in **2024/25** then it may be possible to reduce or eliminate the excess using the carry forward annual allowance rule.

However, any excess that could not be eliminated would be added to your income and taxed at your highest tax rate. This would need to be reported on your tax return and paid through your income tax self-assessment.

Due to the complex nature of pensions rules, it is advisable to seek advice from a Financial Planner prior to making pension contributions, if you believe you could be subject to the tapered annual allowance.

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