

TAPERED ANNUAL ALLOWANCE

AUGUST 2019

You have a tax-limit on how much you can earn or save in a pension each tax year. This is called your Annual Allowance.

If you are a “high earner” your tax-free limit could be lower. This is called Tapered Annual Allowance.

This leaflet explains the tests to check whether you are a “high earner”, and what you can do if you go over your Allowance.

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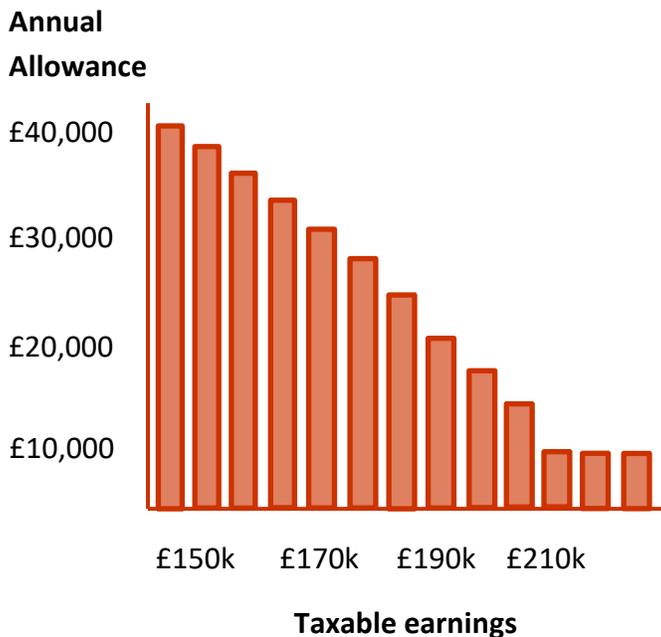
PENSIONS BOARD

Tapered Annual Allowance

Currently you can pay or save up to £40,000 a year in a pension and get tax relief. This is your Annual Allowance.

If your taxable income is more than £150,000 a year, your Annual Allowance starts to reduce.

For every £2 you earn between £150,000 and £210,000 your Annual Allowance reduces by £1. For example:



How do I know if I am a high earner?

There are two tests to decide whether your taxable income is more than £150,000.

“Threshold income”

The first test measures your threshold income. To work this out you need to work out your net income and your pension savings for the tax year.

Broadly, your net income for the year includes:

- your taxable income, overtime, bonuses, rental income, investment returns (including interest), and any pension payments – including State pensions.

Add this up and deduct:

- any contributions you paid to a pension scheme that received “relief at source” tax relief
- any lump sum death benefits you receive from a registered pension scheme
- any employment income given up under Salary Sacrifice

If your threshold income is less than £110,000 your Annual Allowance stays at £40,000. If it exceeds £110,000 a second test comes into play. You need to check your “adjusted income”.

“Adjusted income”

Your adjusted income is broadly:

- your threshold income, plus,
- how much you earn or save in your pensions each year, but less any lump sum death benefits.

If this exceeds £150,000 your Annual Allowance starts to reduce.

If your adjusted income is more than £210,000 you automatically have an Annual Allowance of £10,000.

How do I check my income?

It can be very complicated to work out your threshold and adjusted income. The Government have a helpful link to explain how to work out your income:



[gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance](https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance)

If you are still having trouble and you are concerned that you will be caught by the Tapered Annual Allowance, consider taking advice. You can find an adviser in your area at:



[unbiased.co.uk](https://www.unbiased.co.uk)



If you earn or save more than £40,000 in one tax year with us, we will let you know, but if your Tapered Annual Allowance is less than this, you might exceed it without us telling you.

You can ask us for how much Allowance you have used during the tax year at any time. It is your responsibility to check your Annual Allowance and whether this starts to taper.

We do not know your income, so we will not know what your new Tapered Annual Allowance is.

Will I have to pay a tax charge?

If you do go over your Tapered Annual Allowance you might have to pay tax on the amount you exceed it by.

For example, if your Tapered Annual Allowance is £20,000 but you have saved £22,000 over the tax year, you will only have to pay tax on the £2,000 you exceed the cap by.

The charge is added to your taxable income and you pay tax at your rate of income tax. You can pay the charge by completing a self-assessment tax return and filling in the 'Pension savings tax charges' section. It is your responsibility to pay this.

You can fill out a return at:



[gov.uk/self-assessment-tax-returns](https://www.gov.uk/self-assessment-tax-returns)

If your charge is more than £2,000, you can ask your pension scheme to pay this for you. Find out more about this in our **Scheme Pays** leaflet.

This reflects our understanding of current legislation and practice. You should talk to a financial or legal adviser if you need specific guidance or advice