THE CHURCH OF ENGLAND
PENSIONS BOARD

Tapered Annual Allowance

April 2024

You have a tax-free limit on how much you can save or earn 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.

If you go over this, you usually have to pay a tax charge.

What is the Annual Allowance cap?
Currently you can pay or save up to £60,000 each tax year (or 100% of your taxable earnings if this is less than £60,000) into a pension and get tax relief. This is your Annual Allowance.

This cap applies to all your pensions combined, not just pensions you have with us.

If your taxable income is more than £260,000 a year, your Annual Allowance starts to reduce.

Contact us

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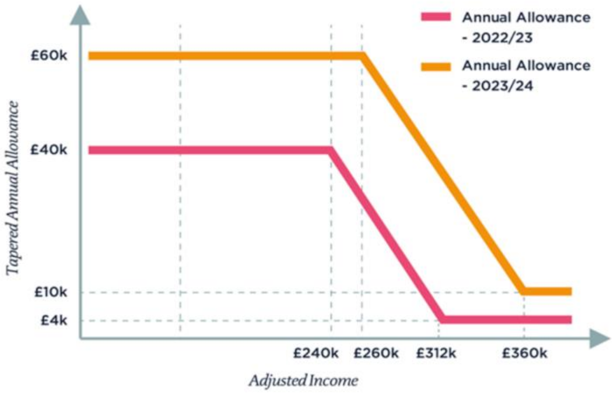
For every £2 that you earn between £260,000 and £360,000 your Annual Allowance reduces by £1.

For example:



Source: LCP

How do I know if I am a 'high earner'?

There are two tests to decide whether your taxable income is more than £260,000.

Threshold income

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

Broadly, your net income for the tax year includes your taxable income, overtime, bonuses, rental income, investment returns (include interest) and any pension payments – including State pensions.

From this you can deduct anything you paid into a pension scheme that received 'relief at source' tax relief.

Key takeaways

Here are the key points to remember:

- **You can earn or save up to £60,000 across all your pensions, each tax year**
- **If you earn more than £260,000 a year your allowance will be less than this**
- **If you take certain pensions flexibly, you will tigger the Money Purchase Annual Allowance and how much you can earn or save each tax year will change**
- **If you go over your allowance you usually have to pay tax on the excess**
- **You can use unused allowance from previous tax years to cover or reduce any tax bill**
- **It is your responsibility to check how much allowance you have used**
- **You need to pay any tax charge yourself by completing a self-assessment tax charge**

Any lump sum death benefits you receive from a registered pension scheme, and any employment income given up under salary sacrifice.

If your threshold income is less than £200,000 your Annual Allowance stays at £60,000. If it exceeds £200,000 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 £260,000 your Annual Allowance starts to reduce. If your adjusted income is more than £360,000 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**

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 **directory.moneyadviceservice.org.uk/en**

If you earn or save more than £60,000 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**

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