

Dealing with clients affected by the tapered Annual Allowance rules – case study

The tapered Annual Allowance reduces how much a client can contribute to pensions each year without a tax charge. Whether tapering applies depends on **threshold income** and **adjusted income**.

Threshold income

Threshold income determines whether tapering needs to be considered.

Start with **net income** (see definition: <http://www.legislation.gov.uk/ukpga/2007/3/section/23>)

Then:

- Deduct gross pension contributions made under the relief-at-source method
- Deduct the gross amount of any taxable lump sum death benefits paid in the year
- Add back any salary sacrifice or flexible remuneration arrangements relating to pension contributions

If threshold income is below the relevant limit, tapering does not apply and the full Annual Allowance is available.

Full HMRC guidance:

<https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100>

Adjusted income

Adjusted income is used to calculate the level of tapering where threshold income exceeds the limit.

Start with **net income**, then add:

- Employer pension contributions
- Employee pension contributions paid via net pay arrangements
- Contributions paid gross with tax relief claimed by the individual

Deduct:

- The taxable amount of any lump sum death benefits paid in the year

Full HMRC definition:

<https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100#adjusted-income>

How the taper works

Where both threshold income and adjusted income exceed their respective limits:

- The Annual Allowance is reduced by £1 for every £2 of adjusted income above the limit
- The reduction continues until the minimum Annual Allowance is reached

This means higher-earning clients may have a significantly reduced allowance and could face an Annual Allowance charge if contributions exceed it.

For practical illustrations of how tapering affects different income levels, refer to the table of example adjusted incomes and corresponding tapered Annual Allowances.

Adjusted income	Annual allowance
up to £260,000	£60,000
£270,000	£55,000
£280,000	£50,000
£290,000	£45,000
£300,000	£40,000
£320,000	£30,000
£340,000	£20,000
£360,000	£10,000

Planning considerations

Because final income figures may not be known at the point contributions are made, advisers may need to plan on a prudent basis. This can involve using the minimum Annual Allowance and any available carry forward, with a final position only confirmed once total income for the year is known.



Example case study

Let's look at how you can manage the above dilemma by using an example.

Bob is 50 and a senior employee in a small engineering business. Although Bob has always been well paid he has had a good pay increase this tax year. He now has a basic salary of £210,000 plus taxable benefits, shares in the engineering business, a portfolio of shares in various companies, a portfolio of collectives, and a rental property he inherited from his father. He is eligible for an annual bonus on 31 March each year which can be anything up to 50% of basic salary at the discretion of his employer.

His employer has made contributions to Bob's Collective Retirement Account up to now. Bob has not made full use of the pension savings allowances in past years.

Key points:

- Bob's basic salary of £210,000 means he has threshold income in excess of £200,000 so adjusted income needs to be calculated.
- Bob has a range of income payments he will receive this tax year that are currently unknown.
- Based on known information it can be expected that Bob will have adjusted income in excess of £260,000 and will have a reduced Annual Allowance.
- Bob was still a high earner in these earlier years and was subject to the tapered Annual Allowance. He has unused Annual Allowances of:

Tax year	Unused Annual Allowance.
2023/24	£30,000
2024/25	£20,000
2025/26	£15,000

Advice requirements:

- Bob is keen to contribute as much as possible into his pension as he wishes to semi-retire at 55.
- He wishes to make the contribution into his existing Collective Retirement Account as it gives him the flexibility of drip-feed drawdown via tax-efficient retirement income options on reaching age 55.
- Bob does not want to over-contribute and have to pay an Annual Allowance excess charge. This would mean he pays income tax on the excess contribution over his Annual Allowance at his highest marginal rate of income tax.

Solution:

- Bob's adjusted income and Annual Allowance will not be known until very late in the tax year or even until tax year 2027/28. Because of the uncertainty of what his 2026/27 Annual Allowance will be, the immediate contribution in relation to tax year 2026/27 should be limited to £10,000. This is largely taken up with his employer's contribution.
- Bob can still use carry forward and look back to tax year 2023/24.
- Bob decides his contributions from all sources for the tax year will be £75,000 (he assumes his annual allowance for this tax year is £10,000, and adds his £65,000 carry forward).

Future actions

It will not be until Bob knows his full adjusted income for tax year 2026/27 that he'll know if he can pay more. By following this strategy of limiting contributions for 2026/27 to an assumed annual allowance of £10,000 plus his carry forward he is funding to the maximum but is not in danger of over-contributing in the current tax year.

Early in the tax year 2027/28 Bob's total adjusted income for 2026/27 becomes known and totals £340,000 meaning his actual Annual Allowance for 2026/27 was £20,000. To use carry forward you must first use your full Annual Allowance in the current tax year, before using any unused Annual Allowances from the three previous tax years.

Any unused Annual Allowance from the earliest tax year must be used first. This results in Bob's £75,000 contribution being allocated as follows:

Tax year	Unused Annual Allowance	Available Annual Allowance used
2026/27	£20,000	£20,000
2023/24	£30,000	£30,000
2024/25	£20,000	£20,000
2025/26	£15,000	£5,000 (£10,000 remaining)
<i>Total paid</i>		£75,000

As Bob wants to continue to maximum fund, and his income uncertainty has not changed, he can pay in £20,000 (he would assume his 2027/28 annual allowance is £10,000 and add the £10,000 carry forward from 2025/26 to it).

Summary

The rules are complex and many individuals will be in a similar position to Bob. They will have variable elements in their income which mean it will be very late in the tax year or the following tax year before they can accurately calculate their Annual Allowance.

Clients like Bob whose pension savings are building solely through defined contribution pension schemes can:

- assume their annual allowance is the lowest it could be
- add their known carry forward from the three previous tax years to it.

Then once the final income is known, you can adopt the same approach. This way, clients should not exceed the Annual Allowance.

Where a client is accruing benefits through a defined benefit scheme and wishes to top-up, any action should be deferred until later in the tax year. It will be important to be able to estimate the value of the accruing benefits in this tax year, in order to estimate how much of any unused Annual Allowance could safely be funded without risk of an Annual Allowance tax charge applying.

Helping you identify how much your clients can fund into their pensions

Working out the tapered annual allowance is as complicated as pensions can get. Our calculator represents a simple but essential tool to help you identify how much your clients can fund into their pensions this tax year. It takes into account:

- adjusted income
- threshold income
- any carry forward allowances available.

Download our Annual Allowance Calculator at

<https://www.quilter.com/help-and-support/technical-guidance/technical-guidance-articles/tapered-annual-allowance-calculator-2026-27/>

We regularly update our literature; you can confirm that this **June 2026** version is the latest by checking the literature library on our website [quilter.com](https://www.quilter.com)

Your clients' investment may fall or rise in value and they may not get back what they put in.

This document is based on Quilter's interpretation of the law and HM Revenue and Customs practice as at May 2026. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

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