



Annual Allowance 2025/26

Aon Client Briefing

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How do you work out if you're affected?
And if you are, what action can you take?

The Annual Allowance: a Recap

The Annual Allowance is the highest amount you can save toward your pension each year tax-free. It applies to your contributions, and your employer's, made to any 'defined contribution' (DC) pension arrangements and to the increase in value of any benefits in 'defined benefit' (DB) pension arrangements you have benefits in.

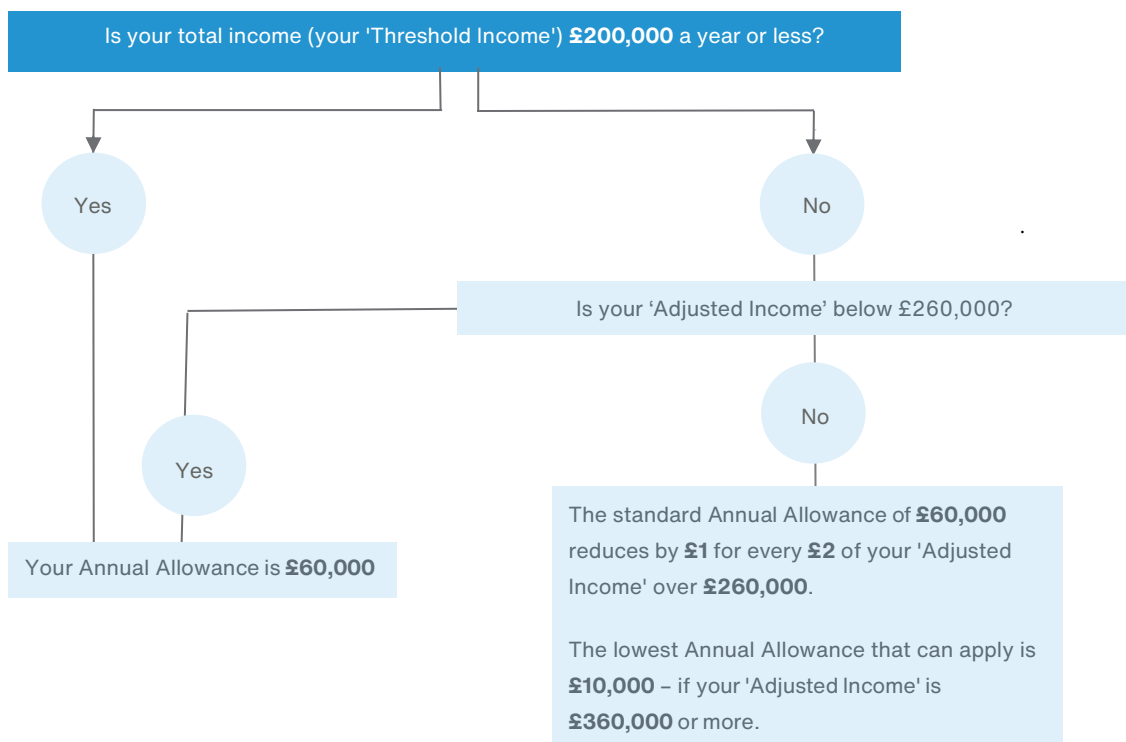
If you go over the Annual Allowance you may have to pay tax on the excess, though you can 'carry forward' any 'unused' allowance from the previous three tax years (see page 5).

A Quick Check: Might You Be Affected by the Tapered Annual Allowance?

Follow the steps below to see if you're likely to be affected by the Tapered Annual Allowance:

For most people, the Annual Allowance is £60,000 for the current tax year. However, a lower 'Tapered' Annual Allowance can apply if your 'Adjusted Income' is over £260,000.

A lower 'Money Purchase Annual Allowance' may also apply where an individual has flexibly accessed pension rights – see 'additional restriction after flexibly accessing pension rights' (on page 7).



A Closer Look: Working it Out

If you're close to either the 'Threshold Income' or 'Adjusted Income' limits, you'll need to work out accurate figures to know whether you're affected by the Tapered Annual Allowance:

Step 1: Calculate your "Threshold Income"	Step 2: Calculate your "Adjusted Income"
<p>Add together all of your taxable income for the tax year, for example this may include:</p> <ul style="list-style-type: none"> - Salary, bonus and any commission (after any 'salary sacrifice' arrangements, for example, for pension contributions) - Rental income - Dividend payments - Interest on savings - Self-employed earnings <p>Then add:</p> <ul style="list-style-type: none"> - Any salary/bonus sacrificed for pension provision under arrangements set up on or after 9 July 2015 <p>Then take away:</p> <ul style="list-style-type: none"> - The value of any personal/member pension contributions you paid to a pension arrangement operating 'relief-at-source' (include basic rate relief) - Any lump sum death benefits you received which was taxable as pension income - Any reliefs under Section 24 of the Income Taxes Act 2007, including, for example, those relating to certain trade and property losses. <p>If your 'Threshold Income' over 2025/26 is £200,000 or less, your Annual Allowance is £60,000 for the 2025/26 tax year.</p> <p>If your 'Threshold Income' is over £200,000, your 'Adjusted Income' will determine the level of your Annual Allowance.</p>	<p>Add together all of your taxable income for the tax year, (in the same way as 'Threshold Income' so this would be after any 'salary sacrifice' arrangements, for example, for pension contributions).</p> <p>Then take away:</p> <ul style="list-style-type: none"> - Any lump sum death benefits you received which was taxable as pension income - Any reliefs under Section 24 of the Income Taxes Act 2007, including, for example, those relating to certain trade and property losses. <p>Then add:</p> <ul style="list-style-type: none"> - Your 'pension input amount' (PIA) for 2025/26 (see below) less any personal/member pension contributions paid to a pension arrangement (include basic rate tax relief if operating 'relief at source'). <ul style="list-style-type: none"> o If your pension is a DC arrangement, the PIA is the value of both employee and employer contributions. o If your pension is a DB arrangement, the PIA is more complex. Once the tax year has ended, you can ask the administrator for confirmation of your PIA over the tax year. - Any deduction from employment income for employee pension contributions under 'net pay' arrangements - Further adjustments may be required in relation to certain uncommon reliefs for pension contributions. <p>If your Adjusted Income is over £260,000, a tapered Annual Allowance applies to you for the 2025/26 tax year.</p>

The above is intended to provide a broad outline of the calculations. For accurate calculations of your 'Threshold Income' or 'Adjusted Income', we recommend you talk to a financial adviser – see page 7.

Let's look at an example...

- Geoff's salary is £188,000 a year. He receives a bonus of £60,000. He receives other taxable income of £20,000 a year.
- He makes gross pension contributions of £8,000 a year (via a workplace group personal pension operating 'relief at source' rather than a deduction from employment income under a 'net pay' arrangement or through salary sacrifice – the £8,000 includes 20% basic rate tax relief payable to the arrangement).
- His employer makes pension contributions of £20,000 a year, giving a total PIA of £28,000 including the £8,000 gross personal/member pension contributions.
- There are no other payments impacting the Threshold Income or Adjusted Income over the tax year.

His 'Threshold Income' is:	£260,000
(Salary + bonus + other taxable income - gross pension contributions paid via relief at source) $£188,000 + £60,000 + £20,000 - £8,000 = £260,000$	
Geoff's 'Threshold Income' is above £200,000 so the 'Adjusted Income' needs to be considered.	

His 'Adjusted Income' is:	£288,000
(Salary + bonus + other taxable income + PIA - gross personal pension contributions paid via relief at source) $£188,000 + £60,000 + £20,000 + £28,000 - £8,000 = £288,000$	
Geoff's 'Adjusted Income' is £28,000 above the £260,000 threshold so his Annual Allowance is tapered by £1 for every £2 of the excess resulting in a reduction of £14,000.	

His Tapered Annual Allowance is:	£46,000
(Annual Allowance – adjusted excess income) $£60,000 - £14,000 = £46,000$	

So, if all of Geoff's pension savings have a combined PIA of £46,000 or more over the 2025/26 tax year, he'll face a tax charge on the excess, that is, unless he's able to apply the Carry Forward rule. Please note in this example, Geoff's PIA is £28,000 so no tax charge will apply.

Adjusted income versus Tapered Annual Allowance (TAA)	
Adjusted Income	TAA
£260,000 or less	£60,000
£280,000	£50,000
£300,000	£40,000
£320,000	£30,000
£340,000	£20,000
£360,000 or more	£10,000

Note:

If you think your 'Threshold Income' is over £200,000, check the table to the left for an indication of what your Tapered Annual Allowance might be. If you're unsure of your tax position, talk to a financial adviser (see page 7).

Carry Forward

You can Carry Forward any 'unused' Annual Allowance from the previous three tax years but only if you have been a member of a UK-registered pension scheme in each of the tax years you wish to carry forward (albeit with no need to have paid any contributions in those tax years). However, even when carrying forward unused allowance, the amount you can pay into your pension, and receive tax relief on, is limited to 100% of your earnings in the tax year the payment is being made.

If we look at Geoff as an example again...

Let's suppose his PIA has been £10,000 less than his Annual Allowance each of the past three years. He'll be able to carry forward: $3 \times £10,000 = £30,000$.

So despite Geoff having a Tapered Annual Allowance of £46,000 for the 2025/26 tax year, by using Carry Forward, his allowance could increase to £76,000

If, having exhausted any Carry Forward, you still exceed the Annual Allowance, you will need to self-declare the excess and will then incur a tax charge at your highest rate on the excess.

Note:

To carry out this calculation for Geoff, consideration is needed in relation to the actual Annual Allowance in place in each tax year and the application of the taper if necessary, using the calculation applicable to that tax year.

The standard Annual Allowance has been £60,000 since 2023/2024 but was £40,000 between 2014/15 and 2022/23. Also, the thresholds for the application of the taper were lower in 2022/23 and before.

Note:

You don't need to notify HMRC if you use Carry Forward, however, we recommend you keep a copy of your calculations in case you need them in the future.

Paying the Annual Allowance charge

If you face an Annual Allowance charge of less than £2,000, you will need to pay this yourself through the tax self-assessment process.

If you face an Annual Allowance charge of £2,000 or more, you can:

- either pay the tax charge yourself
- or, subject to eligibility (as discussed below), use your pension savings to pay some or all of the tax charge and accept a corresponding reduction in your pension benefits. This is called '**Scheme Pays**'.

Scheme Pays

The Scheme Pays rules are a mandatory requirement for all UK-registered pension schemes. The scheme has to provide the facility for the scheme to pay your tax charge if:

- your total PIA for the tax year within the scheme is above the standard Annual Allowance of £60,000 for 2025/26
- the amount of tax charge due exceeds £2,000.

If you meet these conditions, then you need to tell the scheme administrator if you wish to use 'Scheme Pays' and – assuming you have not retired - have made an "irrevocable election" by the end of July in the year following the end of the tax year to which the charge relates (for example 31 July 2027 for the 2025/26 tax year).

Once you have notified the scheme administrator, and made the irrevocable election, they become 'jointly and severally' liable for this charge meaning you are both now jointly responsible for paying the charge.

Voluntary Scheme Pays

It is possible you have an Annual Allowance charge liability to pay but do not meet all the requirements for Mandatory Scheme Pays. For example, you may be subject to a Tapered Annual Allowance so although you have pension input above this amount resulting in a tax charge, you do not have total input above the standard Annual Allowance of £60,000 for 2025/26.

Some pension schemes may provide the option for you to request for the pension scheme to pay the Annual Allowance tax charge despite not having met the necessary criteria for the mandatory requirements above. Such an arrangement is known as 'Voluntary Scheme Pays'.

In this instance, you remain solely liable for the charge so if, for any reason, your scheme administrator doesn't make the payment to HMRC within the required timeframes you will still be liable to meet this cost and could incur penalties and fines for late payment.

Note:

You will need to declare via HMRC's self-assessment process you have an Annual Allowance tax charge to pay and you are using the Scheme Pays option. You still have to submit your self-assessment tax return within the required timeframe which is by the end of January in the year following the end of the relevant tax year (for example 31 January 2027 for the 2025/26 tax year).

It is not compulsory for a pension scheme to offer Voluntary Scheme Pays so you should always contact the pension scheme administrator if you wish to establish whether this option is available. Additionally, under a Voluntary Scheme Pays arrangement, the payment needs to be made to HMRC by the usual deadline of the end of January in the year following the cessation of the tax year the charge is in respect of, rather than the later 31 July deadline for Mandatory Scheme Pays.

Additional restriction after flexibility accessing pension rights: Money Purchase Annual Allowance

Once you reach age 55 (increasing to age 57 from April 2028), or earlier in certain circumstances, it is possible to access pension benefits.

From the date you first 'flexibly access pension rights' – which can include taking pension income from a drawdown arrangement or payment of an Uncrystallised Funds Pension Lump Sum - a 'Money Purchase Annual Allowance' applies. The Money Purchase Annual Allowance (MPAA) is £10,000 for the 2025/26 tax year.

If your pension contributions to defined contribution arrangements exceed this amount over the tax year, you will need to self-declare the excess which will then be taxed at your highest rate. Please note the Carry Forward rule does not apply to the MPAA.

There is a separate Aon Client Briefing covering the MPAA.

Where can you get help?

Government website: If you are interested in more information about the Tapered Annual Allowance this can be found at: www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm057100

Financial advice: If you are at all uncertain about making any decisions to do with your finances and benefits, please take advice. You can seek guidance on finding a Financial Adviser on the Money Helper website here: www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser

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