

# Tapered Annual Allowance

## Video transcript

In this section, we'll have a look at the Tapered Annual Allowance.

If you earn over a certain amount, the standard Annual Allowance of £60,000 might be reduced for you, lowering the amount of pension benefits you can build up over the year that benefit from tax relief, and this is called the Tapered Annual Allowance. You'll have a Tapered Annual Allowance in the 2024/25 tax year if both your threshold income is over £200,000 and your adjusted income is over £260,000.

Your threshold income is broadly your taxable income from all sources, but excluding any of your pension contributions and excluding any additional contributions that you're paying. Your adjusted income is your taxable income excluding any of your pension contributions, but plus the amount of your Annual Allowance that you've used up over the tax year, and that's the amount that you that's shown on your Annual Member Statement. If the answer is no to one or both of these questions, then you're not affected by the Taper and your Annual Allowance stays at the standard amount of £60,000 for the 2024/25 tax year.

However, if in the 2024/25 tax year you exceeded both the threshold income and adjusted income limits, you will be affected by the Tapered Annual Allowance and you will need to work out what your Tapered Annual Allowance is. For every £2 your adjusted income goes over £260,000, your Annual Allowance reduces by £1, with a minimum of £10,000. As an example, if your adjusted income is £280,000 a year, your Tapered Annual Allowance will be £50,000 instead of £60,000, and for anyone with an adjusted income of £360,000 or more, it will be £10,000.

Now, I've simplified the explanations here, and the calculation is slightly different if you pay your contributions via salary sacrifice with your employer, but USS does support you in calculating your Tapered Annual Allowance on their website. You can get help using the Contribution & Tax Calculator on My USS, and there's also a worksheet on the USS website to help you with these calculations. But it is your responsibility to do this, and you might want to take some financial or tax advice to help you.

Here's an example of how the Contributions & Tax Calculator can help you understand if you're impacted by the Tapered Annual Allowance. We'll look at an example member with a salary of £125,000 who pays additional contributions of £37,000 a year, or £3,083 a month. First of all, we press Calculate here, and we can see what this is actually costing the member; that's the first thing the Contributions & Tax Tapered Annual Allowance — October 2024

Calculator will show you. The gross contribution for this member of all their pension contributions to USS is £3,718 a month.

But the actual cost to the member with that tax relief is only £1,814 a month. But then we can go on to click this button here to go into the Tax Modelling section. Once we go in here, we can use the calculator to see if the member's affected by the Tapered Annual Allowance. For this member, we're going to assume that they are also earning £150,000 in additional income, and we can type that in here and then press calculate again here.

The calculator provides an estimate of how much Annual Allowance the member's used and if there might be impacted by the Tapered Annual Allowance. For our member here you can see the member's have got a Tapered Annual Allowance of £41,907, but they've used up £65,808 of their Annual Allowance. So this member's exceeded their Tapered Annual Allowance and might have a tax charge to pay, unless they have some unused allowances from any of the three previous tax years.

Now, as with the standard Annual Allowance, if you do not have enough carry forward and you've got a tax charge to pay, and if you've exceeded your Tapered Annual Allowance and it's over £1,000, you can ask USS to pay it for you and reduce your benefits accordingly through Scheme Pays. Just to note though, if you are affected by the Tapered Annual Allowance, it will not set that out in your Annual Member Statement from USS because USS do not hold all the information available to work out whether you were affected by the Tapered Annual Allowance.

Also, your previous Annual Allowances will not be given in your statement unless your benefits exceeded the standard Annual Allowance of £60,000 for the 2024/25 tax year. If you are affected by the taper but have not got your previous year's allowances shown on your statement, just go into your previous statements on My USS to view the allowances on your previous statements or contact USS and they'll be able to give you the information.