Tapered Annual Allowance (TAA)

Video transcript

Here we'll look at the Tapered Annual Allowance (TAA).

If you earn over a certain amount, the standard Annual Allowance of £60,000 will be reduced for you, lowering the amount of pension benefits that you can build up over the year that benefit from tax relief. This is called the Tapered Annual Allowance.

You'll have a Tapered Annual Allowance in the 2025/26 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, 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. That's the amount that's shown on your Annual Member Statement.

If the answer is no to one or both of these, you're not affected by the taper and your Annual Allowance stays at the standard amount of £60,000 for the 2025/26 tax year. However, if in the 2025/26 tax year you exceed both the threshold income and adjusted income limits, you'll be affected by the Tapered Annual Allowance and you'll need to work out what your Tapered Annual Allowance is.

The way that it works is for every £2 your adjusted income goes over £260,000, your Annual Allowance for the 2025/26 tax year reduces by £1. The minimum Tapered Annual Allowance that you can have in that tax year is £10,000.

As an example, if your adjusted income is £280,000, your Tapered Annual Allowance will be £50,000 instead of £60,000. For anyone with an adjusted income of £360,000 or more each year, your Tapered Annual Allowance will be £10,000.

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 provide support in calculating your Tapered Annual Allowance on their website.

You can use the Contribution & Tax Calculator in My USS, and there's also a worksheet 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.

In this example we've got a member who has a salary of £125,000 and pays £3,083 per month, or £37,000 a year, in additional contributions. We can press Calculate here to see what that is costing the member first. Whilst the gross member contribution is £3,718 per month, the actual cost to the member with tax relief is only £1,814 per month.

Then if we click the Start button here, we can go into the tax modelling section. We're assuming that our example member is also earning £150,000 additional income. We can type that in here. Then we click Calculate here.

The calculator provides an estimate of how much Annual Allowance the member has used and if they might be impacted by the Tapered Annual Allowance. Here you can see the member has a Tapered Annual Allowance of £41,834, but they've used £65,953 of their Tapered Annual Allowance. This member has exceeded their Tapered Annual Allowance and may have a tax charge to pay unless they've got some unused allowance from the three previous tax years.

As with the standard Annual Allowance, if you do not have enough carry forward and you find you've got a tax charge to pay, 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 out in your Annual Member Statement because USS do not hold all the information available to work this out. Also, your previous used Annual Allowances will not be automatically given in your statement unless your benefits exceed the standard Annual Allowance of £60,000 for the 2025/26 tax year.

If you're 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 from those statements. Or you can contact USS and they'll be able to give you the information.