GUIDE FOR HIGHER EARNERS | 2026/27 TAX YEAR

# Pensions and the tapered annual allowance

Threshold income, adjusted income, and why the way you pay in matters

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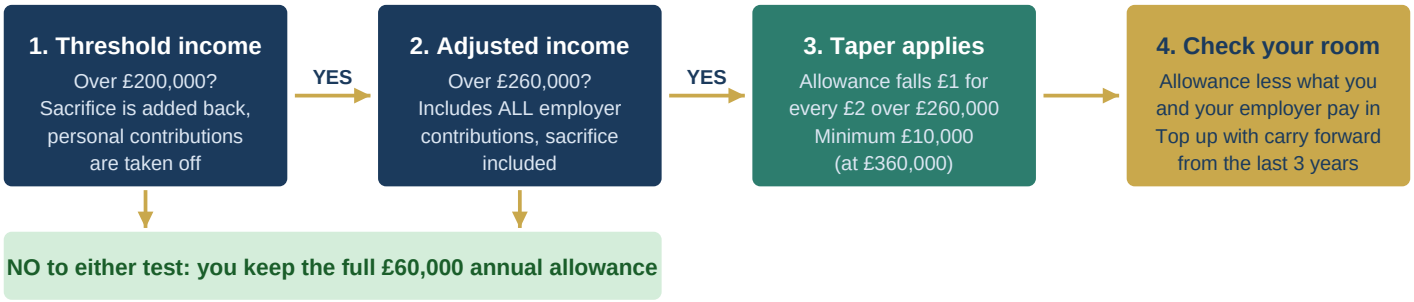
If your salary and bonus together come to more than £200,000 a year, the amount you can pay into a pension each year can be lower than the standard £60,000. This is the tapered annual allowance, and it catches out a lot of high earners, partly because what your employer pays in counts towards it, and partly because how you pay in changes the result.

Paying in more than your allowance doesn't stop the money going in, however it can lead to a tax bill from HMRC. This guide explains the two income tests, shows three worked examples, and sets out how personal pension contributions can help.

| £60,000 | £200,000 | £260,000 | £10,000 |
|---|---|---|---|
| STANDARD ANNUAL ALLOWANCE | THRESHOLD INCOME TEST | ADJUSTED INCOME TEST | MINIMUM ALLOWANCE |

## How the taper works

The taper only applies if you fail both tests. If either figure is at or below its limit, you keep the full £60,000.




## What counts towards each test

| Item | Threshold income | Adjusted income |
|---|---|---|
| **Salary and bonus paid to you** | Counts | Counts |
| **Salary or bonus given up through salary sacrifice*** | Added back | Counts |
| **Employer pension contributions** | Not included | Counts |
| **Your personal pension contributions (gross)** | Taken off | Not taken off |
| **Savings interest, dividends, rental income** | Counts | Counts |

* For salary sacrifice arrangements made on or after 9 July 2015, which covers most schemes in place today. This is a simplified summary; HMRC's full definitions include some further adjustments.

The key point: salary sacrifice, including sacrificing a bonus, generally reduces neither figure. Pension contributions you pay yourself, such as into a personal pension or SIPP, are what bring threshold income down.

## Three worked examples

All three examples assume a workplace scheme where the employee sacrifices 5% of salary and the employer pays 13%, both worked out on salary up to £100,000. That's £5,000 of sacrifice and £13,000 from the employer, so £18,000 a year goes in through work. Figures are for the 2026/27 tax year and assume no other income and no other pension savings.

### Example 1: Just over the line

**£150k SALARY + £100k BONUS**

A total package of £250,000, with nothing paid in beyond the standard workplace contributions.

| Step | Calculation | Result |
|---|---|---|
| **Taxable pay** | £250,000 less £5,000 sacrifice | £245,000 |
| **Threshold income** | £245,000 plus £5,000 sacrifice added back | £250,000 |
| **Adjusted income** | £245,000 plus £18,000 workplace contributions | £263,000 |
| **Taper reduction** | (£263,000 less £260,000) ÷ 2 | £1,500 |
| **Annual allowance** | £60,000 less £1,500 | £58,500 |
| **Room for more** | £58,500 less £18,000 already paid in | £40,500 |

Outcome: the taper only trims the allowance slightly, however it's there. There's up to £40,500 of allowance left this year, plus any unused allowance carried forward from the last three years. A bigger bonus would cut the allowance further.

### Example 2: The bonus sacrifice trap

**£220k SALARY + £50k BONUS**

A total package of £270,000. The whole £50,000 bonus is sacrificed into the pension.

| Step | Calculation | Result |
|---|---|---|
| **Taxable pay** | £270,000 less £5,000 and £50,000 sacrificed | £215,000 |
| **Threshold income** | £215,000 plus £55,000 sacrifice added back | £270,000 |
| **Adjusted income** | £215,000 plus £68,000 total employer contributions | £283,000 |
| **Taper reduction** | (£283,000 less £260,000) ÷ 2 | £11,500 |
| **Annual allowance** | £60,000 less £11,500 | £48,500 |
| **Total paid in** | £18,000 plus £50,000 bonus sacrifice | £68,000 |
| **Over the allowance** | £68,000 less £48,500 | £19,500 |

Outcome: sacrificing the bonus saves £22,500 of income tax and £1,000 of employee National Insurance. However, without unused allowance from earlier years to cover it, the £19,500 excess triggers an annual allowance charge of £8,775 at 45%, cutting the net saving to £14,725. Any employer National Insurance saving passed on would be extra. Bonus sacrifice is still a useful tool; it just doesn't help with the taper.

## Example 3: The personal contribution route

**£220k SALARY + £50k BONUS**

The same £270,000 package, but the bonus is taken as pay and a personal pension contribution of £70,000 gross is made instead.

| Step | Calculation | Result |
|---|---|---|
| **Taxable pay** | £270,000 less £5,000 sacrifice | £265,000 |
| **Threshold income** | £265,000 plus £5,000 added back, less £70,000 personal contribution | £200,000 |
| **Taper test** | Threshold income is not over £200,000 | No taper |
| **Annual allowance** | Full standard allowance | £60,000 |
| **Total paid in** | £70,000 personal plus £18,000 workplace | £88,000 |
| **Covered by carry forward** | £88,000 less £60,000 | £28,000 |

Outcome: with £28,000 of unused allowance from the previous three years, a total of £88,000 can go in with no annual allowance charge. The £70,000 costs £56,000 paid in; the pension provider adds £14,000 and a further £17,500 can be reclaimed, so the net cost is £38,500. A £50,000 personal contribution would not remove the taper, as threshold income would still be £220,000. This doesn't mean personal contributions are always better than salary sacrifice; the right mix depends on the amount, your carry forward, National Insurance savings and your own tax position.

Please note: these examples are illustrative only and are based on 2026/27 pension and tax rules for taxpayers in England, Wales and Northern Ireland (Scottish rates differ). The tax treatment of pension contributions depends on individual circumstances and may change.

## How personal contributions work

Personal contributions are usually paid into a personal pension or SIPP that you set up yourself, separate from your workplace scheme. They work on a relief at source basis: for every £80 you pay in, the provider adds £20 of basic rate tax relief. As an additional rate taxpayer you then claim back up to a further 25% of the gross contribution through your self assessment return or by contacting HMRC. Salary sacrifice is different: for tax purposes it counts as an employer contribution, so it doesn't receive this top-up.

| You pay in | Provider adds | Gross into pension | Reclaim via tax return | Net cost to you |
|---|---|---|---|---|
| **£56,000** | £14,000 | £70,000 | £17,500 | £38,500 |

## Things to bear in mind

| Point | What it means for you |
|---|---|
| **Carry forward** | Unused allowance from the previous three tax years can be used once this year's allowance is used up. You must have been a member of a UK registered pension scheme in those years, and earlier years may have been tapered too. |
| **Earnings limit** | Personal contributions only get tax relief up to 100% of your UK earnings for the year. |
| **Your bonus** | The tests use your income for the whole tax year, so a bigger bonus can move you into the taper. It's safest to finalise contributions once the bonus is known, and make sure they're received by your pension provider by 5 April 2027. A bonus sacrifice must normally be agreed before you become entitled to the bonus. |
| **Other pensions** | All your pension savings count towards the allowance, including other workplace schemes and any defined benefit (final salary) build-up. If you've already started drawing a pension flexibly, a lower £10,000 money purchase annual allowance may apply instead. |
| **Annual allowance charge** | Anything over your available allowance is taxed at your marginal rate through self assessment. In some cases your scheme can pay the charge from your pension instead (scheme pays). |
| **Salary sacrifice from 2029** | From 6 April 2029, National Insurance savings on salary sacrifice pension contributions are due to be limited to the first £2,000 a year. This doesn't affect 2026/27. |
| **Access** | Pension money can't usually be taken until age 55, rising to 57 from 6 April 2028, and withdrawals may be taxable. |

Next steps: if you think the taper may apply to you, or you're considering a large pension contribution this tax year, we'd be happy to work through your own numbers with you. If you'd like help setting up a personal pension, we can set up and manage a SIPP for you, so your personal contributions and investments are all looked after in one place. Contact David Gregory, Chartered Financial Planner, at david@offpistewealth.com.

Check your own threshold income, adjusted income and allowance with our tapered annual allowance calculator, or read the full guide online.

## Important information

This guide is for general information only and does not constitute personal financial or tax advice. The examples are illustrative, based on an assumed workplace scheme, and use our understanding of UK tax rules and allowances for the 2026/27 tax year, which may change in future. The tax treatment of pension contributions depends on your individual circumstances. The value of pension investments, and any income from them, can fall as well as rise and you may get back less than you invest. You should seek advice before acting on anything in this guide.

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