

NHS Pensions - Annual Allowance - Tapered Annual Allowance example

In addition to her pensionable pay of £131,343, Dr Fowler received £10,000 of rental income during the 2016/2017 tax year. Her pension contributions were £19,045 (i.e. 14.5% of £131,343).

Step 1 – Checking the threshold income

To determine if Dr Fowler's Annual Allowance will be tapered, her threshold income is compared against HMRC's £110,000 limit:

- Pensionable pay £131,343.00
- Non-pensionable pay £0.00
- Other taxable income £10,000.00
- Total income £141,343.00

Less the following deductions:

- Dr Fowler's pension contributions £19,045.00

Threshold income £122,298.00

As her threshold income is greater than £110,000 she may be subject to a Tapered Annual Allowance.

Step 2 – Checking the adjusted income

To determine whether Dr Fowler's adjusted income is greater than the £150,000 limit her taxable earnings and pension input amount are added together. Her pension savings statement for 2016/2017 confirmed a pension input amount of £42,089.34:

- Threshold income £122,298.00

Plus

- pension input amount £42,089.34

Adjusted Income = £164,387.34

Step 3 – Tapered Annual Allowance

As a consequence of her adjusted income being greater than £150,000 Dr Fowler has a Tapered Annual Allowance. The Annual Allowance of £40,000 is tapered by £1 for every £2 that Dr Fowler's adjusted income exceeds £150,000.

Her adjusted income is £14,387.34 more than HMRC's £150,000 limit (£164,387.34 - £150,000) and as a result she will have a Tapered Annual Allowance is £32,806.33 (£40,000 - (£14,387.34 ÷ 2)).

Step 4 – Comparing the pension input amount against the Tapered Annual Allowance

Dr Fowler was sent a 2016/2017 pension savings statement confirming a pension input amount of £42,089.34. She realises that she may have to pay an Annual Allowance charge on the £9,283.01 over her tapered annual allowance of £32,806.33.