



Annual Allowance

Aon Client Briefing

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Prepared for: Aon Clients

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Background

The Annual Allowance (AA) is the highest amount you can save towards your pension each tax year (6 April to 5 April) tax-free. For most the AA is £60,000.

The AA applies to your own contributions, employer contributions, contributions made by a third party and to the increase in value of any pension savings in 'defined benefit' (DB) pension arrangements you have.

If you exceed the AA you will have to self-declare and pay an AA tax charge, unless you have 'unused' allowance from the three previous tax years known as 'Carry Forward'.

You may have a lower 'Tapered Annual Allowance' or lower 'Money Purchase Annual Allowance'. Further details are provided below.

Carry Forward

You can Carry Forward any 'unused' AA 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 requirement to have paid any contributions in those tax years).

However, even when Carrying Forward unused allowance, the amount you can personally pay into your pension as an employee or personal contribution, and receive tax relief on, **is limited to 100% of your earnings in the tax year** the payment is being made. More details on Carry Forward are explained later.

Paying the Annual Allowance Charge

If you face an Annual Allowance (AA) charge of **less than £2,000**, you **must** self-declare and pay this yourself through the HMRC tax self-assessment process.

If you face an AA charge of **£2,000 or more**, you can:

- either pay the tax charge yourself; or
- subject to eligibility, you can use your pension savings to pay some or all of the tax charge and accept a corresponding reduction in your pension savings. This is called '**Scheme Pays**'.

Mandatory 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 '**pension input amount**' (PIA) for the tax year within the scheme exceeds the **standard AA of £60,000 for 2026/27**
- the amount of AA tax charge due **exceeds £2,000**.

If you meet these conditions and wish to use Scheme Pays, you must:

- notify the scheme administrator; and
- make an **irrevocable election** by **31 July*** following the end of the relevant tax year (for example, by **31 July 2028** for the **2026/27** 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.

*The deadline will be brought forward if the individual intends to take all their pension savings from the pension scheme. Also, the scheme may impose an earlier deadline to allow time to process the request.

Voluntary Scheme Pays

It is possible you have an AA tax charge to pay but do not meet all the conditions for Mandatory Scheme Pays. For example, you may be subject to a Tapered Annual Allowance (see next section) so although you have exceeded the Tapered Annual Allowance resulting in a tax charge, you do not have total pension input above the standard Annual Allowance of £60,000 for 2026/27.

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

Under Voluntary Scheme Pays:

- the scheme may pay the charge to HMRC, but

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 2028 for the 2026/27 tax year).

- **you remain solely liable** for settling the tax. If the scheme does not pay HMRC on time, you must still pay the charge and may incur **interest, penalties or fines** for late payment.

Pension schemes are **not required** to offer Voluntary Scheme Pays. You should therefore check with your scheme administrator if this option is available.

Where Voluntary Scheme Pays is used, the tax charge must be paid to HMRC by the **usual self-assessment deadline of 31 January** following the end of the relevant tax year, **not** the later **31 July** deadline applying to Mandatory Scheme Pays.

Tapered Annual Allowance

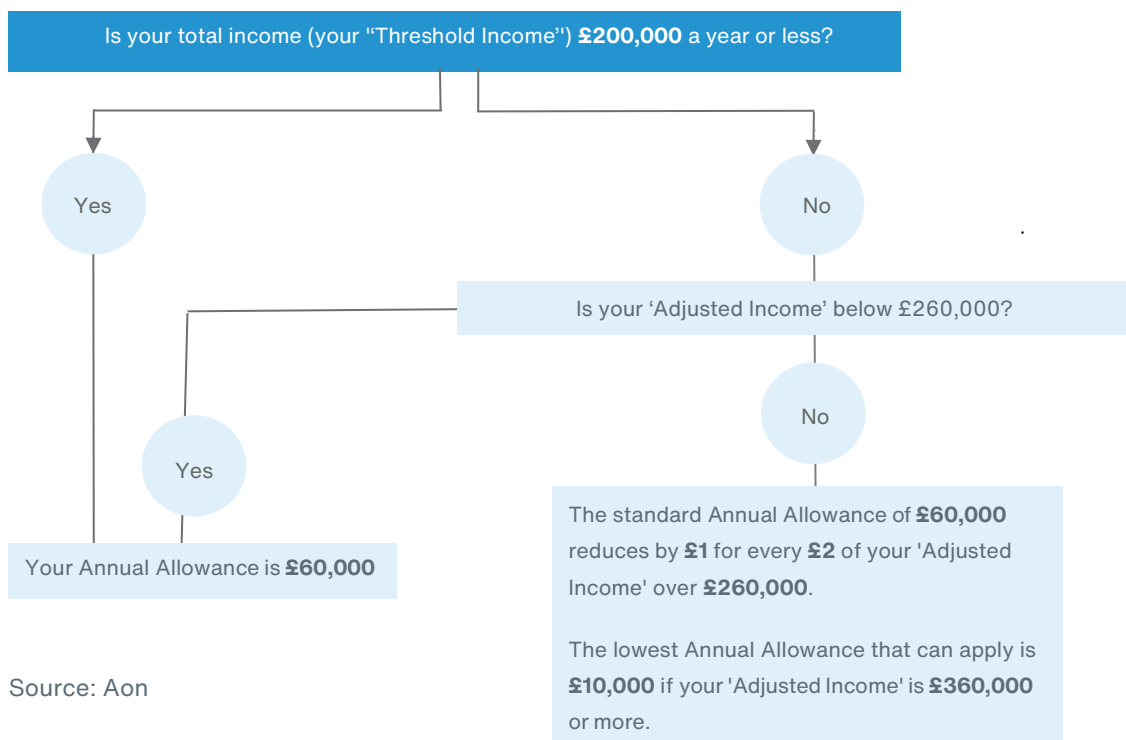
The standard AA of £60,000 may reduce for anyone with **'Adjusted Income'** above **£260,000** a year. This is called the Tapered Annual Allowance (TAA).

The AA will reduce by £1 for every £2 of 'Adjusted Income' over £260,000, with a maximum reduction to the AA of £50,000.

This means those with 'Adjusted Income' of £360,000 a year or more will have a TAA of £10,000.

How to check if you might be affected by the TAA

Follow the steps below to see if you're likely to be affected by the TAA:



Source: Aon

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, e.g. 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 salary sacrifice 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' is £200,000 or less, your Annual Allowance is £60,000 for the 2026/27 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, e.g. 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 2026/27 (see below) less any personal/member pension contributions paid to a pension arrangement operating 'relief-at-source' (include basic rate relief) <ul style="list-style-type: none"> o If your pension is a DC arrangement, the PIA is the value of both employee (gross) 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 2026/27 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 pension).
- 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 2026/27 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) $£60,000 - £14,000 = £46,000$	

Please note in this example, Geoff's PIA is £28,000 so no tax charge will apply. However, if all of Geoff's pension savings had a combined PIA of £46,000 or more over the 2026/27 tax year, he would face a tax charge on the excess, that is, unless he's able to apply the Carry Forward rule.

'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).

If we look at Geoff as an example again but using Carry Forward (page 1 explanation)...

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

So, despite Geoff having a TAA of £46,000 for the 2026/27 tax year, by using Carry Forward, his allowance would increase to £76,000.

If, having exhausted any Carry Forward, you still exceed the AA, then you will incur a tax charge at your highest marginal rate on the excess which must be self-declared via self-assessment. For more details see 'Paying the Annual Allowance charge' on page 2.



Carry Forward Note

To carry out the calculation, consideration is needed in relation to the actual AA in each tax year and if applicable the TAA in that tax year.

The Standard AA has been £60,000 since and including the 2023/24 tax year but was £40,000 between 2014/15 and 2022/23 (tax years run from 6 April to 5 April). Also, the Adjusted Income and Threshold Income earnings thresholds to establish the TAA as well as the minimum TAA itself were all lower up to and including 2022/23 compared to the current position.

As Carry Forward usually looks at the last three tax years, the lower AA and TAA before 2023/24 will no longer be relevant for many when establishing the position for 2026/27. However, some do need to look further back if they have exceeded the AA or TAA in earlier tax years so older AA and TAA levels may still need to be considered.

If Carry Forward has helped you to avoid an AA tax charge, you do not need to notify HMRC of the Carry Forward usage, but it is recommended you keep a copy of your calculations for future reference.

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' (MPAA) applies. The MPAA is £10,000 for the 2026/27 tax year.

If your pension contributions to defined contribution pension 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 via HMRC tax self-assessment process. Please note it is not possible to benefit from Carry Forward with the MPAA.

Note: There is a separate Aon Client Briefing covering the MPAA in more detail.

Where can you get help?

Government website: If you are interested in more information about the Annual Allowance or Tapered Annual Allowance this can be found at: www.gov.uk/tax-on-your-private-pension/annual-allowance or 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



The information explained in this document is intended as a general guide only and is based on current UK legislation and HM Revenue & Customs (HMRC) practice for the 2026-27 tax year. Tax treatment depends on individual circumstances and tax rules, both of which may be subject to change in the future.

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