

How does the Annual Allowance work

The Annual Allowance (AA) restricts the amount of tax relief on pension contributions that you can get each year.

You're affected if your **threshold income** is more than £200,000 and your **adjusted income** is more than £260,000.

To check this, you'll need to go through some steps:

- work out your income to find your new AA;
- compare this with your current pension contributions;
- check whether you can carry forward any unused AA from previous years;
- decide what action to take.



The following information will guide you through the steps.
Please visit the HMRC annual allowance help page to aid you
in calculating your personal annual allowance [here](#).

together 
we are
Sainsbury's



How to work out if your AA is affected

Step 1

Calculate your threshold income

- Add together **all** your taxable income. This includes: taxable earnings such as your salary (before any pension contributions you make through SMART), car allowance, benefits in kind and bonus you receive from Sainsbury's – remember also to add in any bonus that is paid in shares when it vests in March;
- Plus:
 - dividend payments (from shares);
 - taxable earnings from any other sources;
 - any rental income received from property;
 - interest on any savings.
- Deduct:
 - certain reliefs such as salary exchanged for Cycle to Work, childcare vouchers, Holiday Buying Scheme;
 - charitable donations made through the Give As You Earn scheme;
 - any contributions you've made to a personal pension (not including your Sainsbury's Pension).

**If this amount is £200,000 or less, your AA hasn't been reduced and it stays at £60,000.
You can stop reading.**

If the amount is over £200,000, you might be affected and should go to step 2.

Louise

Salary = £150,000

Car Allowance = £9,000

Healthcare = £1,405

Bonus = £50,550 (made up of cash received in June 2023 and shares from 2019 vesting in March 2023)

Total taxable income received from Sainsbury's = £210,955

She received no income from any other source and doesn't have a personal pension, although, she does pay for £1,000 worth of Childcare Vouchers through payroll, so deducts this from her total taxable income figure. $£210,955 - £1,000 = £209,955$

Threshold income = £209,955

This is more than £200,000, so Louise must now calculate her adjusted income.

Step 2

Calculate your adjusted income

Take your threshold income figure:

- This time, you need to add the following:
 - the contributions paid into your Sainsbury's pension pot by Sainsbury's (12.5%) and your own contributions (5%);
 - any contributions you've made to a personal pension (not including your Sainsbury's pension).

If your adjusted income is £260,000 or less, your Annual Allowance isn't reduced and you can stop reading.

If it's more than £260,000, your AA will be reduced and you need to calculate your new 'tapered' AA. You can find out how by moving on to step 3.



Louise

Threshold income = £209,955

Contributions from Sainsbury's are 12.5%.
So, Louise takes her salary of £150,000 and works out 12.5% of this.

$$£150,000 \times 12.5\% = £18,750$$

She adds it on to her threshold income figure.

$$£209,955 + £18,750 = £228,705$$

This is less than £260,000 so
Louise isn't going to be affected.



Mark

Salary = £150,000

Car Allowance = £9,000

Healthcare = £1,405

Bonus = £71,000

Total taxable income received from
Sainsbury's = £231,405

He received £7,800 from share dividends
(including Sainsbury's), but has no other income
from any other sources, doesn't have a personal
pension and didn't have any reliefs to deduct.

$$\text{Threshold income} = £231,405 + £7,800 = £239,205.$$

This is more than £200,000 so Mark calculated his
adjusted income by adding the contributions paid
into his Sainsbury's pension pot by Sainsbury's
(12.5%) and his own contributions (5%).

$$£150,000 \times 17.5\% = £26,250$$

$$\text{Adjusted income} = £239,205 + £26,250 = £265,455$$

This is over £260,000 so Mark needs to calculate
his new AA.

Step 3

Calculate your new AA

For every £2 of adjusted income over £260,000, your AA will be reduced by £1. If your adjusted income is over £360,000, your AA will be £10,000.

This table gives examples but isn't calculated in 'bands'. For example, if your adjusted income is £275,000, your AA would be £52,500.

Adjusted income	AA
Up to £260,000	£60,000
£280,000	£50,000
£300,000	£40,000
£320,000	£30,000
£340,000	£20,000
£360,000	£10,000

Mark

Mark calculated his adjusted income as £265,455.
He is therefore £5,455 over the adjusted income level.
He divides this by 2 to give him the figure which he needs to reduce his AA by.
 $£60,000 - (5,455/2) = £57,272.50$

If your AA is less than £60,000, what does this mean?

Do a quick check by deducting the total contributions made to your Sainsbury's pension pot from your new AA figure. You can also find this amount by getting your payslip and entering the amount under PENS CONTS ER, but remember to include the amounts from any pay periods left in the tax year to get an annual figure.

Mark

Mark's AA was £57,272.50. Both he and Sainsbury's contribute around £26,250 per year into his Sainsbury's pension pot and he's never increased his contributions above 'normal' amounts. He's comfortable he is unlikely to be affected as his new AA more than covers his contribution amount.

If you have increased your contributions significantly then you may be affected.

If your total contributions are over or near to your AA figure, you may need to take some action but you can carry forward unused allowance from the previous three years. You can find out how by moving onto step 4.

Step 4

Work out how much you can carry forward

The amount depends on how much personal unused annual allowance (**including tapered allowances**) you have in each of the previous three tax years. The amounts below assume you do not have **tapered** allowances.

Tax year	AA
2025/26	£60,000
2024/25	£60,000
2023/24	£60,000
2022/23	£40,000

Work out your last tax year amount first, then go back two more tax years and work forward from there to get this year’s allowance. You can check your payslips for total pension contributions (remember: PENS CONTS ER) made for your previous tax years at Sainsbury’s or ask L&G (worksave@landg.com).

Once you have these amounts, enter them into an online calculator like the app the administrators of the Sainsbury’s Pension Scheme, Willis Towers Watson (WTW), have available here [AA IncomeCalc](#).

Susan

In 2023/24 and 2022/23, Susan’s adjusted income was less than £260,000 so the full standard AA was available to her in both years. Last year, however, her adjusted income was £340,000 so she had a reduced (tapered AA) of £20,000. Her adjusted income this year is even higher – above £360,000 – so her new tapered AA for 2025/26 is £10,000. She wants to know whether she has any carry forward AA to continue with her pension in 2025/26. She has contributed £25,000 so far this tax year.

Tax year	Standard Annual Allowance (AA)	Susan’s personal AA	Pension contributions	Total carry forward available
2025/26	£60,000	£10,000	£25,000 (so far)	£33,000
2024/25	£60,000	£20,000	£30,000	£48,000
2023/24	£60,000	£60,000	£22,000	£58,000
2022/23	£40,000	£40,000	£20,000	£20,000

Susan therefore has £33,000 available in carry forward as things stand. She will carry on contributing as normal this tax year but may need to look at this again if her salary increases in the future and at the end of tax years.

Again, do a quick check by taking your carry forward AA and comparing it to the total contributions made to your Sainsbury’s pension pot so far this tax year. If you have enough space in your carry forward amount for a couple of years’ worth of contributions, then you should be fine.

If you have nothing to carry forward, you’ve increased your contributions by significantly more than 5% or made a large one-off contribution between 6 April 2024 and 5 April 2025, please email the Pensions Department at pensions@sainsburys.co.uk. We’re able to help you manage your contributions if you’re affected by this reduction in your AA.

