Income Tax explained

Rates, income thresholds and why an extra pound can have a wider effect.

Start with the type of income

Income Tax can apply to earnings, self-employed profits, pensions, rental profits, savings interest and dividends. Different rates can apply to different income types. Your **marginal rate** is the rate on the next slice, not the rate on everything you earn. The figures below are for 6 April 2026 to 5 April 2027. [1,10,11]

England, Wales and Northern Ireland	Rate
Standard Personal Allowance	£12,570, subject to income taper
Taxable non-savings income: first £37,700	20%
Taxable non-savings income: £37,701-£125,140	40%
Taxable non-savings income above £125,140	45%

Read the bands correctly

With a full allowance, the basic-rate ceiling is normally **£50,270 total income**. The £125,140 additional-rate boundary is expressed here as taxable income; at that level the standard allowance has been lost. Pension relief and Gift Aid can extend rate bands. Scottish non-savings rates are different; UK savings and dividend rates still apply to Scottish taxpayers. [1,3,9]

Scottish non-savings income: total income*	Rate
£12,571-£16,537	19% starter
£16,538-£29,526	20% basic
£29,527-£43,662	21% intermediate
£43,663-£75,000	42% higher
£75,001-£125,140	45% advanced
Over £125,140	48% top

Allowances are not all the same

*Scottish ranges assume the standard allowance where available; it tapers above £100,000. Savings and dividend nil-rate allowances still use rate bands and normally count towards income thresholds. ISA income and withdrawals are normally outside Income Tax. National Insurance is a separate charge on relevant earnings, not most pension or investment income. [2,3,10,11,13]

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The £100,000 tax trap

Adjusted net income drives the Personal Allowance taper and key childcare limits.

What adjusted net income means

Adjusted net income (ANI) starts with total taxable income before Personal Allowances: salary, bonus, benefits in kind, taxable pension income, rental profit, savings and dividends can all matter. Deduct eligible reliefs, including gross personal pension contributions and grossed-up Gift Aid. Do not deduct a pension contribution twice if it has already reduced the income figure. ANI is not the same calculation as pension taper adjusted income. [2]

The 60% band is an effective rate

For each £2 of ANI above £100,000, you lose £1 of Personal Allowance. The £12,570 allowance disappears at £125,140. On employment income in England, Wales and Northern Ireland, the combination normally creates **60% marginal Income Tax between £100,000 and £125,140**. It is not an extra tax rate on all your income. Scottish employment income can face a 67.5% effective marginal rate in this range. National Insurance and benefit losses can add to the effect. [1-3,13]

Illustration: Sam earns £110,000	Income Tax effect versus £100,000
Extra employment income	£10,000 × 40% = £4,000
Personal Allowance lost	£10,000 / 2 = £5,000
Tax on the allowance lost	£5,000 × 40% = £2,000
Extra Income Tax	£6,000; £4,000 extra take-home before NI

An illustrative pension contribution

Assume Sam has sufficient relevant earnings and pension allowance, no other income/reliefs, and uses relief at source. Paying **£8,000 net** creates a **£10,000 gross** contribution. ANI falls from £110,000 to £100,000. The provider adds £2,000; Sam can claim a further £4,000 tax reduction, including restored allowance. The eventual net cost is £4,000 for £10,000 in the pension. Relief must be claimed correctly and money is normally locked away until pension access age. No NI saving is assumed. [1,2,9]

Childcare can create a cliff edge

If either parent has expected ANI **over £100,000**, Tax-Free Childcare is generally unavailable. England's working-parent childcare entitlement has the same individual upper-income test, plus other conditions. This is not a gradual withdrawal like the Personal Allowance. The universal entitlement for eligible 3- and 4-year-olds is separate; devolved nations have different childcare schemes. Keep estimates under review and reconfirm eligibility as required. [6,7]

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Child Benefit and higher earners

Two different taper systems, each based on its own definitions.

Child Benefit is an individual-income test

The High Income Child Benefit Charge normally starts when the higher-income partner's ANI is **over £60,000**. The charge is 1% of Child Benefit for each £200 over that threshold; at £80,000 it recovers all the payments. It applies even if the other partner receives the benefit. A couple each below the threshold can have higher combined income without the charge. [4]

Worked example: two children and ANI of £70,000

Using 52 illustrative weeks at 2026/27 rates: (£27.05 + £17.90) × 52 = **£2,337.40**. ANI of £70,000 is £10,000 above the threshold: £10,000 / £200 = **50%**. The illustrative charge is **£1,168.70** before HMRC rounding. Actual entitlement weeks and changes in household circumstances affect the calculation. [4,5]

Keep the claim and NI credits in mind

You can claim Child Benefit and opt out of payments while retaining associated National Insurance credits, where eligible, for caring for a child under 12. Simply not claiming can lose those credits. Use the HMRC calculation and reporting route appropriate to your circumstances; do not assume PAYE has collected the charge automatically. [4]

Pension annual allowance: 2026/27	What happens
Standard annual allowance	£60,000 across pension input, including employer input
Threshold income £200,000 or less	No high-income taper, even if adjusted income is higher
Threshold income over £200,000 AND adjusted income over £260,000	Allowance reduces £1 for every £2 of adjusted income above £260,000
Adjusted income £360,000 or more, with threshold test met	£10,000 minimum tapered allowance

Over £200,000 does not automatically mean £10,000

Threshold income generally deducts eligible personal pension contributions, with anti-avoidance add-backs for some salary sacrifice. Adjusted income includes pension input using the statutory calculation, including employer contributions and DB accrual. For threshold income £220,000 and adjusted income £300,000, the reduction is (£300,000 - £260,000) / 2 = £20,000, leaving **£40,000**. Check both tests, not salary alone. [8,14]

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Plan using the full picture

Practical checks before a bonus, pension payment or investment withdrawal.

Relief, carry forward and limits

A pension contribution or Gift Aid donation can reduce ANI if it qualifies. That may restore allowance or reduce a Child Benefit charge, but the money must actually be contributed or donated. Pension personal tax relief is generally limited by relevant UK earnings; dividends and most rental profits are not relevant earnings. Employer contributions follow different rules. Carry forward can use unused annual allowance from the previous three tax years if conditions are met; it does not increase the earnings limit. The £10,000 money purchase annual allowance after certain flexible withdrawals is a separate restriction. [8,9,14]

Other thresholds worth checking

Savings: the Personal Savings Allowance is normally £1,000 for basic-rate and £500 for higher-rate taxpayers; additional-rate taxpayers have none. A separate starting rate may apply at lower incomes.

Dividends: the annual dividend allowance is £500. Rates above it in 2026/27 are 10.75%, 35.75% and 39.35%. A dividend can affect ANI even when taxed at 0% under the allowance.

Marriage Allowance: qualifying couples may transfer £1,260 of allowance, with a maximum £252 reduction; recipient income/rate conditions apply. This is not available to all married couples. [10-12]

Adviser discussion checklist

Bring payslips/P60s, bonus forecasts, taxable benefits, pension input statements, investment income and Child Benefit details. Check ANI separately for each partner. Model the full-year tax position, personal pension gross-up, employer/DB input and childcare eligibility before acting. Tax relief reduces tax; it does not make an unsuitable investment suitable.

Working assumptions for the examples

Examples are fictional, use 2026/27 rules and assume UK residence. The 60% example uses employment income in England, Wales or Northern Ireland with no other reliefs; it excludes NI, student loans and benefit interactions unless expressly stated. Scottish rates apply according to Scottish taxpayer status, not simply where an employer is located. [1,3]

Primary sources | Checked 24 November 2026

1 Income Tax bands and allowance
2 Adjusted net income
3 Scottish rates 2026/27
4 Child Benefit charge
5 Child Benefit rates
6 Tax-Free Childcare eligibility
7 Working-parent childcare England
8 Tapered pension allowance
9 Pension contribution relief
10 Savings tax
11 Dividend tax
12 Marriage Allowance
13 NI rates
14 Pension allowances

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