

INCOME TAX MARGINAL RATES WHEN YOUR TAX RATE MAY BE 60% NOT 20% OR 40%

Many people assume that Income Tax in the UK is charged at simple headline rates of 20 percent and 40 percent. In practice, this is not always the case. Once certain income thresholds are crossed, additional charges and withdrawals of allowances can apply, pushing the effective marginal tax rate well above the standard bands.

There are three common income points where this catches people out.

MARGINAL RATE IF INCOME EXCEEDS £35,000, WINTER FUEL PAYMENT CLAWBACK

For some pensioners, income above around £35,000 can trigger a clawback of the Winter Fuel Payment through the tax system. This means that for every extra pound of income, part of the benefit is effectively lost. When combined with Income Tax, the true marginal rate can rise above 40 percent for that slice of income. The exact rate depends on the value of the payment and individual circumstances, but it often comes as an unwelcome surprise.

MARGINAL RATE IF INCOME EXCEEDS £60,000, HIGH INCOME CHILD BENEFIT CHARGE

If you or your partner receive Child Benefit, income above £60,000 can trigger the High Income Child Benefit Charge. The charge withdraws Child Benefit at a rate of 1 percent for every £200 of income over the threshold. When this withdrawal is added to 40 percent Income Tax, the effective marginal tax rate can easily reach 50 percent to 60 percent, and in some family situations it can be even higher. This is one of the most common examples of people paying far more than the headline higher rate on additional income.

MARGINAL RATE BETWEEN £100,000 AND £125,140, LOSS OF PERSONAL ALLOWANCE

Income above £100,000 leads to the gradual loss of the personal allowance. For every £2 of income over this level, £1 of allowance is withdrawn. This creates an effective marginal tax rate of around 60 percent on income in this band, before considering any other charges or benefits being withdrawn. This is often described as the highest marginal Income Tax rate faced by many UK taxpayers, despite not being labelled as such in the tax tables.

WHY THIS MATTERS

These marginal rates mean that a pay rise, bonus, pension withdrawal, or extra investment income can leave you much worse off. In some cases, earning an extra £1,000 can result in only £400 or less being kept after tax and charges. Planning can make a real difference. Pension contributions, timing of income, use of allowances between spouses, and careful review of benefits can all help reduce the impact of these hidden tax rates.

If your income is close to any of these thresholds, it is well worth reviewing your position. Call us on **01753 888 211** or email info@nhllp.com, we are here to help.