

60% Tax Trap

Here's how it works

If you earn £100,000 or more, the rate of Income Tax you pay will be impacted by the gradual removal of the £12,570 personal allowance (the amount of income you can earn each year without paying Income Tax). It's currently tapered away at a rate of £1 for every £2 you earn above £100,000.

Here's an example. Let's say your salary has increased from £100k to £110k.

Here's how the extra £10k would be taxed:

Did you know...

It's often thought that the highest UK tax rate is 45% but that's not the case. If you earn more than £100,000 per year, you could be taxed at a rate of 60% on income between £100,000 and £125,140.

£4000

This is the standard 40% Income Tax for a higher rate taxpayer.



£2000

This is the additional Income Tax as the personal allowance is reduced by £5,000.



£6000

Total Income Tax paid. That's 60% of the pay rise you received.

Three things to consider:

1

Making pension contributions on any excess income you earn over £100,000 can effectively prevent your taxable income from going above the £100,000 threshold and into the 60% tax trap.

2

Pension contributions also benefit from tax relief at your marginal rate.

3

Making donations to a qualifying charity can also reduce taxable income in the same way as making pension contributions.

Contact us *before* the end of this tax year – 5 April to talk through the tax reliefs and allowances available to you.

The value of an investments will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested.

The levels and bases of taxation, and reliefs from taxation, can change at any time and are generally dependent on individual circumstances.

Any tax relief over the basic rate is claimed via your annual tax return.