



Annual Income Over £100,000

Aon Client Briefing

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Prepared for: Aon Clients (exc. Scotland)

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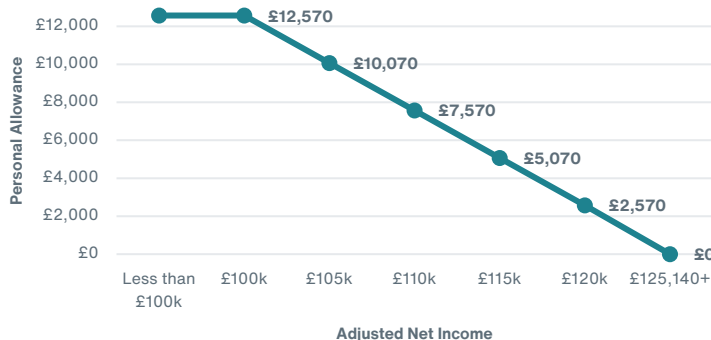
Personal Allowance Tapering

If you have income of over £100,000 per year, it is likely you are aware you are subject to higher (or additional) rate income tax at 40% (or 45%) on a large portion of this income.

However, a lesser understood aspect of UK personal taxation is the fact earnings between £100,000 and £125,140 are effectively taxed at a rate of 60% due to the loss of the Personal Allowance.

This is because when your Adjusted Net Income (see below) exceeds £100,000 your Personal Allowance reduces by £1 for every £2 it is exceeded. This means for anyone with income above £125,140, their Personal Allowance will be zero.

Reduction of Personal Allowance (based upon earnings)



Source: Aon UK Ltd

Personal Allowance and Tax Rates

Your Personal Allowance is the amount of taxable income permitted to be earned each year that will not be taxed. It is currently £12,570 (tax year 2026/27).

The next £37,700 of taxable income is subject to income tax at the basic rate of 20% with any earnings above this amount (but less than £125,140) subject to higher rate tax at 40%.

Then, all earnings over £125,140 are taxed at the additional tax rate of 45%.

*These rates are applicable to all UK taxpayers other than in Scotland where different rates apply.

When losing this Personal Allowance, it means not only are you now paying the basic rate of tax on this income at 20%, but an equivalent amount is also now being charged at 40% (rather than 20%) resulting in the effective 60% rate.



What is Adjusted Net Income?

In very simple terms, it is the amount of taxable income you have with an adjustment allowed for certain tax reliefs such as pension contributions, as well as donations made to charities through Gift Aid.

This is explained in greater detail here: www.gov.uk/guidance/adjusted-net-income

To illustrate, consider the example of an individual who has a salary of £100,000:

£100,000 example		
Thresholds		Deductions
Income Tax	£12,570 at 0%	£27,432
	£37,700 at 20%	
	£49,730 at 40%	
National Insurance (NI)	£12,570 at 0%	£4,010
	£37,700 at 8%	
	£49,730 at 2%	
Take home pay		£68,558

If the individual receives a £20,000 bonus, total earnings will increase in this example to £120,000, which means part of the Personal Allowance will be lost:

£120,000 example		
Thresholds		Deductions
Income Tax	£2,570 at 0%	£39,432
	£37,700 at 20%	
	£79,730 at 40%	
National Insurance (NI)	£12,570 at 0%	£4,410
	£37,700 at 8%	
	£69,730 at 2%	
Take home pay		£76,158

(Some figures in the above tables are rounded to nearest whole £.)

The amount lost is calculated by dividing the excess over £100,000 by 2 and deducting this from the Personal Allowance.

In this example, £20,000 divided by 2 equals £10,000, deducted from the Personal Allowance, currently £12,570 results in a remaining Personal Allowance of £2,570.

This demonstrates despite an increase in gross (pre-tax) earnings of £20,000, the 'net' position after tax only increases by £7,600. Therefore, Income Tax and NI have now resulted in a 62% reduction to this payment (60% income tax and 2% NI).

How will the reduction or removal of the Personal Allowance be applied?

There are two ways this could be applied: either by an adjustment to your tax code, meaning you will have a reduced (or zero) Personal Allowance throughout the tax year; or through self-assessment.

1. Through your tax code

- If you have previously earned over £100,000, HMRC will usually adjust your tax code to reflect the loss of some or all of your Personal Allowance.
- If your current earnings are lower than in previous years, this may result in overpaid tax during the year as a result of an incorrect tax code.

2. Through self-assessment

- If you have not previously earned over £100,000, your tax code is unlikely to reflect the potential loss of some or all of your Personal Allowance.
- When you complete your self-assessment return summarising earnings over £100,000, the calculation of tax owed will include the adjustment due to the loss of the Personal Allowance, probably resulting in a tax bill to pay.

However, since the introduction of Real Time Information (RTI) where all employers are required to submit details of monthly earnings to HMRC, HMRC can now identify where employees are likely to earn in excess of the £100,000 threshold. HMRC reviews the RTI submission made by an employer and uses this data to estimate the projected total earnings for the current tax year and will then issue an adjusted tax code to employees they think will have earnings in excess of £100,000.

Whilst this has prevented many employees from having to pay a tax bill via the self-assessment process, it is fraught with difficulties where an employee has fluctuating earnings. For example, employees receiving mid-year bonuses, or where commissions are paid, can receive an amended tax code which is not an accurate reflection of the likely tax situation. If this is the case, you should contact HMRC to discuss this matter.

Steps to alleviate the reduction in the Personal Allowance

If you have earnings well in excess of £125,140 per annum, there may be limited scope to retain your Personal Allowance. However, if your total earnings are in the £100,000 to £150,000 range there are steps you may be able to take to reduce the impact to your Personal Allowance.

As detailed above, the adjusted net income figure used to calculate any Personal Allowance reduction is your taxable earnings less allowable tax reliefs such as charitable

gifts or pension contributions. Therefore, you could potentially retain some or all of your Personal Allowance by using these options.

Using the previous individual example, if they chose to sacrifice their £20,000 bonus into their pension under a pension bonus sacrifice arrangement:

- The £20,000 would be paid directly into the pension scheme.
- They would avoid income tax and currently National Insurance* on the bonus.
- They would retain the full Personal Allowance.

In effect, for a £7,600 reduction in take-home pay, the individual would receive an additional £20,000 paid into pension.**

** From April 2029, the Government is planning to introduce a cap on the amount of pension contributions that can be sacrificed without paying National Insurance contributions. Initial information regarding the cap was announced in the Budget in November 2025, but final details will be confirmed once legislation is passed.*

***This assumes the individual is not affected by the Tapered Annual Allowance and has sufficient Annual Allowance to make this level of contribution. Anyone using pension contributions to reduce adjusted net income should ensure they remain within the Annual Allowance rules.*



Note

There is a separate Aon Client Briefing Note on the Annual Allowance including the Tapered Annual Allowance



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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