Tax and benefit traps for higher earners

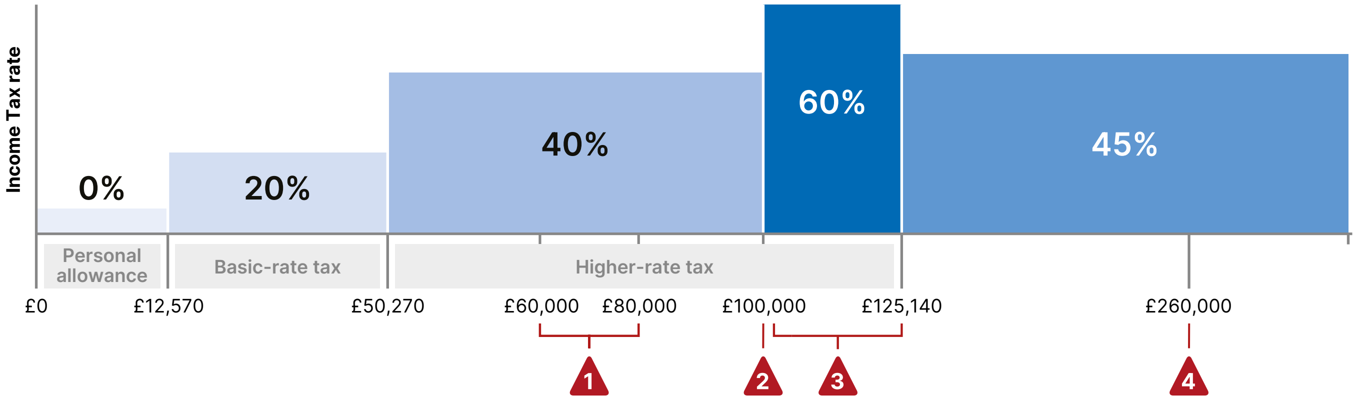
HARGREAVES LANSDOWN

As income rises, so can tax consequences. Families may lose valuable benefits and others may face a 60% effective tax rate or a tapered pension allowance. These less well-known impacts can catch people off guard, leading to larger tax bills or reduced take-home pay.

This factsheet highlights the key thresholds and implications to help you plan more effectively but it's not personal advice. If you're unsure if a course of action is right for you, please seek financial advice.

This chart illustrates how the effective income tax rates change as earnings increase. It highlights key thresholds and earnings triggers for **loss of child benefit, loss of tax-free childcare, 60% Income Tax trap** and **Tapered Annual Allowance** for pensions.

The information on this factsheet relates to 'rest of uk' Income tax rates and bands. Income tax rates and bands in Scotland are different – see overleaf for details. Tax rules can change and any benefits will depend on your personal circumstances.



1 Loss of Child Benefit

Income trigger: £60,000 - £80,000

If your individual income or your partner's income reaches £60,000 per year, you may have to pay some or all of any Child Benefit back through the High Income Child Benefit Charge. The charge is tapered, so if your or your partner's income reaches £80,000, you will lose all of your Child Benefit.

Read more about High Income Child Benefit Charge

2 Loss of Tax-Free Childcare

Income trigger: £100,000

You can get up to £500 every 3 months (up to £2,000 a year) for each of your children to help with the costs of childcare. But if you or your partner have an expected income over £100,000 in the current tax year, you will not be eligible.

Read more about Tax-Free Childcare

3 60% Income Tax trap

Income trigger: £100,000 - £125,140

Once your income exceeds £100,000, you start to lose your Personal Allowance – £1 of allowance for every £2 over £100,000. This is an effective income tax rate of 60% for the income between £100,000 and £125,140.

4 Pension tapered annual allowance

Income trigger: £200,000 - £260,000

If your threshold income is over £200,000 then your pension annual allowance will be reduced by £1 for every £2 that your adjusted income is over £260,000 - to a minimum annual allowance of £10,000.

Read more about the tapered annual allowance

How Pension contributions can help

By increasing your pension contributions, you can lower your taxable income. This can help preserve benefits and avoid the 60% effective rate of tax. Money in a pension is not usually accessible until age 55 (57 from 2028).

You can speak to your employer about your pension contribution options.

Income tax allowances and bands 2026/27

Income tax - main personal allowances

The dividend and personal savings allowances apply after the personal allowance and the personal savings allowance is calculated using UK, not Scottish, rates. Anything within these allowances still counts towards the basic and/or higher rate tax bands.

Allowance	2026/27
Personal Allowance	£12,570 *
Transferable tax allowance for married couples/civil partners	£1,260 **
Personal Savings Allowance (PSA)	£1,000 for Basic-rate taxpayers £500 for Higher-rate taxpayers Not available for Additional-rate taxpayers
Dividend Allowance	£500

* The personal allowance reduces by £1 for every £2 of income above £100,000. The personal allowance is lost if taxable income exceeds £125,140 (2026/27). A Married Couple's allowance (born pre-6 April 1935) or Blind Person's allowance may also apply.

** The transferrable tax allowance only applies where neither individual is a higher or additional rate tax-payer. The maximum tax reduction available is £252.

Income tax – bands

UK excluding Scottish Earned or Pension Income			
Band	**Taxable income**	**Tax rate**	**Dividend tax rate**
Personal allowance	£0 - £12,570	0%	N/A
Basic rate	£12,571 - £50,270	20%	10.75%
Higher Rate	£50,271 - £125,140	40%	35.75%
Additional Rate	Over £125,140	45%	39.35%

Scotland only Scottish tax bands only apply to earned and pension income. The rates and bands above apply to savings and dividend income.		
Band	**Taxable income**	**Tax rate**
Personal Allowance (tax free)	£0 - £12,570	0%
Starter Rate	£12,571 - £16,537	19%
Basic rate	£16,538 - £29,526	20%
Intermediate Rate	£29,527 - £43,662	21%
Higher Rate	£43,663 - £75,000	42%
Advanced Rate	£75,001 - £125,140	45%
Top Rate	Over £125,140	48%

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Hargreaves Lansdown
One College Square South
Anchor Road Bristol BS1 5HL

0117 314 1795
invest@hl.co.uk
www.hl.co.uk