



Annual Income Over £100,000 2025/26

Aon Client Briefing

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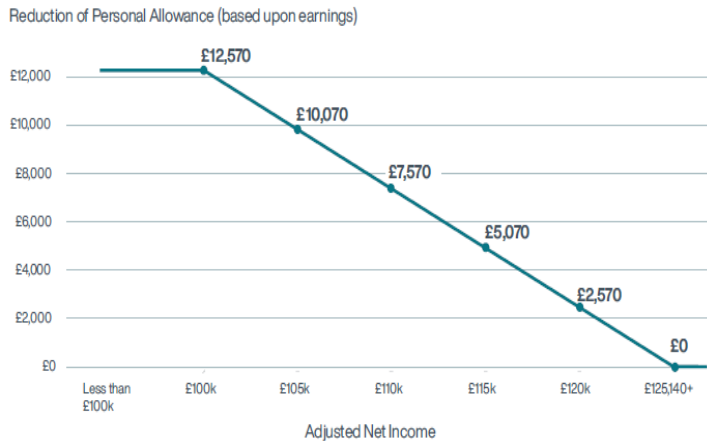


Understanding Tax Rates

Personal Allowance tapering on earnings over £100,000 per year

If you have income of over £100,000 per year, it is likely you are aware you are subject to higher rate income tax at 40% on a large portion of this income. However, a lesser understood aspect of personal taxation in the UK 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 goes down by £1 for every £2 it is exceeded. This means for anyone with income above £125,140, their Personal Allowance will be zero.



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 2025/26).

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

Example with earnings of £100,000

To demonstrate, see the example of Bill below who has a salary of £100,000 (some figures rounded to nearest whole £).

Gross Salary £100,000 example		
Thresholds		Deductions
Income Tax	<ul style="list-style-type: none"> • £12,570 at 0% • £37,700 at 20% • £49,730 at 40% 	£27,432
National Insurance (NI)	<ul style="list-style-type: none"> • £12,570 at 0% • £37,700 at 8% • £49,730 at 2% 	£4,010
Take home pay		£68,558

Example with earnings of £120,000

If, however, Bill receives a bonus of £20,000, this will increase his earnings to £120,000, which means he will lose part of his Personal Allowance.

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

In this case, £20,000 divided by 2 equals £10,000, deducted from the Personal Allowance (currently £12,570) results in a Personal Allowance remaining of £2,570. This means Bill's tax position is now as follows (some figures rounded to nearest whole £):

Gross Salary and Bonus £120,000 example		
Thresholds		Deductions
Income Tax	<ul style="list-style-type: none"> • £2,570 at 0% • £37,700 at 20% • £79,730 at 40% 	£39,432
National Insurance (NI)	<ul style="list-style-type: none"> • £12,570 at 0% • £37,700 at 8% • £69,730 at 2% 	£4,410
Take home pay		£76,158

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

If in previous years you have had earnings of over £100,000 per year, HMRC will usually provide you with a tax code reflecting the loss of the Personal Allowance. This means, provided your income in the current tax year is broadly consistent with what you earned in previous years, you will be paying approximately the correct level of tax. However, if you have lower earnings than previous years, you may be overpaying income tax on a monthly basis as a result of an incorrect tax code.

If you have not previously earned over £100,000 your tax code is unlikely to reflect the potential loss of the Personal Allowance. This means each month you will be benefitting from this allowance, but 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 HMRC's introduction of Real Time Information (RTI) requirements where all employers 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 might not be a great deal you can do to retain the Personal Allowance. However, if your total earnings are in the £100,000 to £140,000 range there are steps you can 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 example of Bill again, if he had elected to use the bonus he was paid as an additional pension contribution he could have mitigated some of the reduction to his Personal Allowance. If his employer offered a Pension Bonus Sacrifice arrangement, he could have elected for the £20,000 bonus to be paid directly into his pension, meaning he wouldn't be subject to the tax and NI applicable on this payment plus he would have retained his full Personal Allowance. Therefore, the cost to him in take home pay would only be £7,600, in exchange for an additional £20,000 into his pension*.

*It should be noted this example assumes Bill is not subject to a Tapered Annual Allowance and has the option to pay such a pension contribution.

Anyone electing to use pension contributions to reduce adjusted net income should ensure they have the scope to make such contributions within the Annual Allowance rules.

There is a separate Aon Briefing Note relating to this.

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