



Are you unknowingly paying an effective 60% tax rate?

The hidden tax trap that could be costing higher earners thousands

With wages rising and frozen tax thresholds pushing more people into higher tax bands, many UK professionals are finding that earning more does not always mean taking home more. In fact, individuals earning £110,000 a year can face surprisingly high tax bills and may even lose valuable tax allowances.

The good news is that there are legitimate and highly effective ways to reduce your taxable income, which can lower your tax liability and strengthen your long-term financial position. One of the most powerful tools available is pension planning.

UNDERSTANDING THE TAX TRAP

For the 2026/27 tax year, higher rate taxpayers pay 40% Income Tax on earnings above the basic rate threshold. However, an additional challenge arises when income exceeds £100,000.

At this level, your personal allowance is reduced by £1 for every £2 of income above £100,000. This means someone earning £110,000 loses £5,000 of their tax-free personal allowance. The result is an effective tax rate of up to 60% on the portion of income between £100,000 and £125,140.

For many people, this hidden tax trap is an unwelcome surprise.

THE POWER OF PENSION CONTRIBUTIONS

One of the simplest ways to reduce taxable income is through pension contributions. Personal pension payments receive tax relief and can effectively reduce your adjusted net income for tax purposes.

For example, if you earn £110,000 and make a £10,000 gross pension contribution, your adjusted income could fall to £100,000. This may restore your full personal allowance and increase your retirement savings.

The combined benefit can be substantial. Not only could you reduce your current tax bill, but you could also avoid losing part of your tax-free allowance.

BUILDING WEALTH WHILE REDUCING TAX

Pension contributions offer a double advantage. They help reduce tax today and provide an opportunity to build long-term wealth for retirement.

Funds held within a pension can generally grow free of Income Tax and Capital Gains Tax. Over time, this tax-efficient environment can help investments compound more effectively than in a taxable account.

For higher earners, redirecting a portion of income into a pension can therefore be an important part of a broader financial planning strategy.

OTHER ALLOWANCES WORTH CONSIDERING

Pensions are not the only option. Tax-efficient savings vehicles, such as Individual Savings Accounts (ISAs), can help shelter investment returns from tax, while charitable donations made through Gift Aid can also reduce adjusted net income in certain circumstances.

Couples may also benefit from reviewing how assets and investments are structured within the household to ensure that available allowances are used efficiently.

However, pension contributions remain one of the most effective ways for many higher earners to reduce exposure to the £100,000 tax trap and secure their future financial wellbeing. ■

A PENSION IS A LONG-TERM INVESTMENT THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN. YOUR EVENTUAL INCOME MAY DEPEND UPON THE SIZE OF THE FUND AT RETIREMENT, FUTURE INTEREST RATES AND TAX LEGISLATION. AN ISA IS A MEDIUM TO LONG TERM INVESTMENT, WHICH AIMS TO INCREASE THE VALUE OF THE MONEY YOU INVEST FOR GROWTH OR INCOME OR BOTH. THE VALUE OF YOUR INVESTMENTS AND ANY INCOME FROM THEM CAN FALL AS WELL AS RISE. YOU MAY NOT GET BACK THE AMOUNT YOU INVESTED. HM REVENUE AND CUSTOMS PRACTICE AND THE LAW RELATING TO TAXATION ARE COMPLEX AND SUBJECT TO INDIVIDUAL CIRCUMSTANCES AND CHANGES WHICH CANNOT BE FORESEEN. THE FINANCIAL CONDUCT AUTHORITY DOES NOT REGULATE TAX PLANNING. TAX CONCESSIONS ARE NOT GUARANTEED AND MAY CHANGE IN THE FUTURE. TAX FREE MEANS THE INVESTOR PAYS NO TAX. FOR SPECIALIST TAX ADVICE, PLEASE REFER TO AN ACCOUNTANT OR TAX SPECIALIST.

ARE YOU KEEPING YOUR LONG-TERM FINANCIAL GOALS ON TRACK?

As tax thresholds remain frozen and more people pay higher rates of tax, proactive planning has become increasingly important. Taking action before the end of the tax year can help maximise available allowances and potentially reduce your tax bill significantly.

If you earn £110,000 or more and would like to understand how pension contributions or other tax-efficient strategies could suit your circumstances, contact us for further information. Professional advice will help ensure you make the most of available opportunities while keeping your long-term financial goals on track.