

Income Tax

Income Tax, unsurprisingly, is a tax on income. To be more specific, it is a tax on the income of individuals and non-incorporated businesses. Incorporated businesses have their own tax regime, Corporation Tax.

Are all types of income taxable?

The following lists show the main income types that are, and are not taxable.

Taxable income includes:

- Earnings from employment
- Earnings from self-employment
- Pensions income
- Dividend income
- Rental income
- Trust income
- Benefits in kind, use of a company car etc.

Non-taxable income includes:

- Income from Individual Savings Accounts (ISA's)
- Interest from tax exempt savings accounts
- Premium Bond wins
- Working tax credit.

The rates of Income Tax applied in England and Northern Ireland for 2025-26 are:

Income Tax Bands	2025-2026
Starter rate - 0%	£1 - £5,000
Basic rate 20%	£1 - £37,700
Higher rate 40%	£37,701 - £125,140
Additional rate 45%	over £125,140

Income Tax bands in Scotland for 2025-26 are:

Income Tax Bands	2025-2026
Starter rate 19%	£1 - £2,827
Basic rate 20%	£2,828 - £14,921
Intermediate rate 21%	£14,922 - £31,092
Higher rate 42%	£31,093 - £62,430
Advanced rate 45%	£62,431 - £125,140
Top rate 48%	over £125,140

Income Tax bands in Wales for 2025-26 are:

Income Tax Bands	2025-2026
Starter rate - 0%	£1 - £5,000
Basic rate 20%	£1 - £37,700
Higher rate 40%	£37,701 - £125,140
Additional rate 45%	over £125,140



What allowances can I deduct from taxable income?

Every resident of the UK has a personal tax allowance, below which no Income Tax is paid. Additionally, taxpayers may be able to claim a personal savings allowance, and those in receipt of dividend income can claim an additional relief. For 2025-26 these reliefs are:

Income Tax allowances	2025-2026
Personal tax allowance	£12,570
Dividend allowance	£500
Personal savings allowance	
– basic rate taxpayers	£1,000
– higher rate taxpayers	£500

What other claims can I make to reduce Income Tax liabilities?

Some of the more common claims you can make are listed below:

- Pension contributions subject to annual limits.
- Expenses you have paid and relevant to your employment.
- Higher rate tax relief for charitable contributions.
- Relief for certain investment schemes such as the Enterprise Investment Scheme.
- Losses from Income Tax trading losses incurred in the same tax year.

This is by no means an exhaustive list. You should consult with your professional advisor to ensure you are claiming all reliefs to which you are entitled.

Additional allowance for married couples (or civil partners)

For 2025-26, couples can transfer up to £1,260 of a partner's unused personal allowance, to their spouse (or civil partner), and set it off against the other spouse's income. This can only be done if the person receiving the spare allowance is a basic rate Income Tax payer. The maximum cash benefit to a family that can make this claim is £252 for 2025-26.

Dividend income

Although dividends received are treated as income in the hands of individuals, they are taxed at different rates to other sources of income. As indicated above, the first £500 (2024-25: £500) of dividends received are tax-free. Amounts more than £500 are taxed at various rates dependent on where the dividend income sits in the basic (20%), higher (40%) or additional (45%) rate bands. The hybrid rates are:

- Dividends within the basic rate band – 8.75%
- Dividends within the higher rate band – 33.75%
- Dividends within the additional rate band – 39.35%

Beware the High Income Child Benefit Charge (HICBC)

Couples receiving child benefits should be wary of the HICBC. If either parent has income in excess of £60,000 (2024-25: £60,000) then any child benefit they have received will be recovered at the rate of 1% for every £200 (2024-25: £200) that income exceeds £60,000 (2024-25: £60,000).

Accordingly, if either parent earns more than £80,000 (2024-25: £80,000) then all the child benefit received will be taken back in increased Income Tax. To save having to report these matters to HMRC by submitting a tax return, parents can simply cancel their child benefit entitlement.

Beware the 60% marginal Income Tax rate

If your taxable income exceeds £100,000 you will lose £1 of your personal tax allowance (£12,570 for 2025-26) for every £2 that your income is more than £100,000.

This means that as soon as income is equal to or higher than £125,140, your personal tax allowance is no longer available. Taking this into account, your tax bill on the top £25,140 of your income will be 40% (£10,056) plus, 40% of the lost personal allowance; a further £5,028. In total, you will retain just £10,056 of your £25,140 income (£25,140 - £10,056 - £5,028). Your percentage tax charge is therefore 60% on this marginal band of income between £100,000 and £125,140.

It would be of significant benefit if you were able to claim reliefs or otherwise reduce your taxable earnings below £100,000 as this would save you paying tax within the £25,140 band at 60%.

Other marginal rates to avoid

Other marginal rates to avoid include:

- If your income moves above the threshold where working tax or child tax credits cease to be available, you will suffer the loss of tax credit plus tax on the additional income you earn. The same situation may arise if you cease to qualify for Universal Credits.
- If your income exceeds £260,000, when you start to pay Income Tax at 45%, the tax relief you can claim for pension contributions may be reduced to a minimum of £10,000.

Self-assessment

Most Income Tax payers are not required to submit a tax return – if they are basic rate tax payers, with employment or pension income, HMRC will be notified of their income by their employers or pension providers, and Income Tax will be collected via the PAYE (pay as you earn) tax collection processes.

The self-employed are presently required to submit a tax return. HMRC will use the information returned to issue a calculation of tax due. As the self-employed are not subject to the PAYE payment process they are required to make two payments, in January and July, each year to settle any tax due.

What about Making Tax Digital (MTD)?

Once MTD is fully launched - to include the upload of accounts data - the present requirement to file a self-assessment tax return will no longer be required.

MTD is set to be extended to taxpayers who file Income Tax Self-Assessment Tax Returns for business or property income over £50,000 annually from April 2026.

Since April 2022 all VAT registered businesses have been required to register for MTD for VAT. These affected businesses are now required to keep their records digitally (for VAT purposes only) and provide their VAT return information to HMRC through MTD compatible software.

VAT registered businesses are advised to take professional advice to ensure they are arranging their affairs in the most tax efficient manner.

Summary action list

Be sure to take advice if any of the following circumstances apply to your Income Tax affairs:

- You are claiming Child Benefit and either your income, or that of your partner/spouse is likely to exceed £60,000 in the current tax year.
- If your income is likely to exceed £100,000 in the current tax year.
- You draw money from your own company and you are unsure how to set salary and dividend limits.
- You are unsure if you should register to submit a self-assessment tax return.

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