
The £100,000 Cliff Edge

A Detailed Planning Guide for Higher Earners

Crossing £100,000 of income is often seen as a milestone. From a tax perspective, however, it introduces one of the most aggressive marginal bands in the UK system.

Between £100,000 and £125,140, the interaction of higher rate tax and the withdrawal of the personal allowance creates an effective 60% marginal tax rate, before National Insurance and student loan deductions.

For directors, professionals and business owners, this is not theoretical. It frequently arises due to:

- Bonuses
- Dividends
- One-off profit distributions
- Pension drawdown
- Property income
- Sale proceeds taxed as income

Understanding how the taper operates, and how adjusted net income is calculated, is essential.

1. How the Personal Allowance Taper Works

The personal allowance is £12,570 for most taxpayers.

Once adjusted net income exceeds £100,000, the allowance is reduced by £1 for every £2 above that threshold.

By £125,140, the personal allowance is completely withdrawn.

Why this creates a 60% marginal rate

Consider £1 of income above £100,000:

- 40% higher rate income tax applies
- You also lose 50p of personal allowance
- That 50p becomes taxable at 40%

So, for every £1 earned, an additional 20p of tax arises through lost allowance.

40% direct tax + 20% indirect effect = 60% marginal rate.

This applies until the allowance is fully tapered away.

2. What Is Adjusted Net Income?

Many people assume the threshold is based purely on salary. It is not.

Adjusted net income includes:

- Employment income
- Dividends
- Rental income

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- Savings income
 - Pension income
 - Certain benefits

It is calculated after deducting:

- Gross pension contributions
- Gift Aid donations

This is why structured planning works, because certain payments reduce adjusted net income.

A very common scenario is in the first year your package goes over £100,000 your tax code is **not automatically updated** to reflect the loss of personal allowances, so you can be stuck with a tax bill for the at least that tax year, and sometimes two tax years after you reach that threshold. As soon as you know you will be hitting that £100,000 target, get in touch with an accountant to effectively plan how to manage your allowances.

3. Worked Examples

Example 1: Bonus Without Planning

Salary: £98,000

Bonus: £10,000

Total income: £108,000

Excess above £100,000: £8,000

Personal allowance reduction: £4,000

That £4,000 is now taxable at 40%, creating an additional £1,600 tax bill beyond the higher rate tax on the bonus itself.

Effective marginal cost on part of that bonus is 60%.

Example 2: Pension Planning Before Bonus

Using the same scenario:

Salary: £98,000

Bonus: £10,000

If £8,000 gross is contributed to a pension:

Adjusted net income returns to £100,000

Personal allowance preserved

The taxpayer avoids the taper and retains the allowance.

This often produces a far more efficient overall position, especially where long-term retirement planning is already a priority.

4. Additional Impact for Families

Where either partner's adjusted net income exceeds £100,000:

- 30 hours free childcare may be lost
- Tax-free childcare top-up eligibility may cease

For households with young children, this can add several thousand pounds to annual costs. The effective marginal rate, when childcare loss is included, can exceed 60% in real economic terms.

5. Common Situations Where We See Exposure

- Directors extracting large dividends at year end
- Consultants receiving performance bonuses
- Property investors with strong rental years
- Individuals taking flexible pension withdrawals
- Sale of carried interest or profit share treated as income

Often the issue arises because income is reviewed after the tax year has ended.

6. Planning Levers That Genuinely Work

1. Personal Pension Contributions

Gross pension contributions reduce adjusted net income.

This can:

- Restore personal allowance
- Reduce exposure to 60% marginal band
- Increase retirement funding

Contribution limits and annual allowance restrictions must be checked.

2. Gift Aid Donations

Gift Aid contributions also reduce adjusted net income.

For those already making charitable donations, structuring them efficiently can prevent unintended taper exposure.

3. Dividend and Bonus Timing

For directors:

- Consider spreading dividends across tax years
- Model profit extraction before declaring distributions
- Review salary versus dividend mix

Where multiple shareholders exist, allocation strategies may reduce taper exposure.

4. Income Deferral or Acceleration

In some cases:

- Delaying income into a later year
- Bringing forward deductible expenditure
- Adjusting remuneration structure

can mitigate crossing the threshold.

7. When Planning Becomes Urgent

Planning should occur when:

- You expect income to approach £100,000
- A bonus is anticipated
- Dividends are about to be declared
- Rental income has increased materially
- Pension withdrawals are planned

Once the tax year ends, options narrow considerably.

8. The Key Takeaway

The £100,000 threshold is not simply about paying higher rate tax.

It is about:

- Losing the personal allowance
- Triggering a 60% marginal band
- Potentially losing childcare support
- Increasing the overall effective tax burden significantly

For many professionals and directors, small structural adjustments can prevent a disproportionate tax outcome.

A short modelling exercise before bonuses or dividends are finalised can materially change the result.

9. Talk to us

The £100,000 threshold does not have to feel like a cliff edge. With careful planning and the right structure, the landing can be significantly softer. The earlier the conversation, the better the outcome.

Reach out to us today to start planning:

You can:

- **Email:** info@drs-tax.com
- **Telephone:** 020 8059 1891
- **Submit an enquiry** via our [Contact Us](#) page
- **Book a free 15-minute consultation**