Your essential guide to financial planning if you earn £100,000 or more

If you are approaching the milestone of earning six figures – £100,000 or above – or have recently reached it, you might feel an incredible sense of achievement.

After all, you have worked extremely hard to reach this position, and could feel a sense of relief that you're earning enough to provide for yourself and your family both now and in the future.

However, while reaching the £100,000 mark is a fantastic achievement, it does mean you'll face some significant tax and benefit disadvantages too.

Without enough knowledge or professional guidance, you could find yourself surprised by how much Income Tax you're paying. Plus, you could be set to lose a key childcare benefit that may increase your outgoings even further.

If this worries you, don't panic – this guide will let you know:

- Why your Income Tax bill might be higher than you expect when your earnings reach £100,000
- The tax breaks and childcare perks you are likely to lose
- How to strategically improve your wealth situation when you earn £100,000 or more
- Examples of how we've helped our clients to avoid these pitfalls and make the most of their income.

Here at Kind Wealth, we specialise in helping high earners like you design a financial plan that mitigates tax and supports your goals.

- **Email enquiries@kindwealth.com**
- **Call 0121 233 0611**

> “
> The whole experience has been professional, friendly, and informative. At all times I was able to ask the ‘daft question’. This was really important for me as I was unskilled in this area and needed to trust the person/company I chose.
>
> **Jason on working with Kind Wealth**

Keep reading to find out how financial planning could improve your financial freedom once you begin earning £100,000 or more.

> Look no further. A great company that I would recommend again and again.
>
> **Andrew on working with Kind Wealth**

The tax efficiencies and perks you could lose at an adjusted net income of £100,000

Income Tax bands for the 2024/25 tax year – do you know yours?

As of the 2024/25 tax year, the Income Tax bands stand as follows for those who live in England, Wales, and Northern Ireland:

Earnings (adjusted net income)	Income Tax rate
Under your Personal Allowance of £12,570	0%
Between £12,570 and £50,270 (this is known as the basic-rate Income Tax band)	20%
Between £50,270 and £125,140 (this is known as the higher-rate Income Tax band)	40%
More than £125,140 (this is known as the additional-rate Income Tax band)	45%

It's important to note that the government reduced the additional-rate tax threshold in April 2023.

Before this, you would pay additional-rate (45%) Income Tax on earnings over £150,000 – but now, the threshold stands at £125,140.

Looking at the tax rates, you may wonder why you should be concerned – surely the tax rate doesn't rise until your earnings reach £125,140?

Yes, but your Personal Allowance of £12,570 tapers once your adjusted net income reaches £100,000 (essentially meaning you start to lose your Personal Allowance). Don't worry, you'll find out everything you need to know about the tapered Personal Allowance in the next section.

The 60% tapered Personal Allowance tax trap

You begin to lose your tax-free Personal Allowance of £12,570 once your adjusted net income reaches £100,000.

The Personal Allowance tapers (reduces) by £1 for every £2 you earn over £100,000. This means that once you earn £125,140 (the additional-rate Income Tax threshold) you have no Personal Allowance at all.

Essentially, this means you pay tax on all your income – you lose the entitlement to a tax-free Personal Allowance.

The loss of your Personal Allowance means that the portion of your income between £100,000 and £125,140 could be subject to an effective Income Tax rate of 60%.

Why? Let's imagine you earn £110,000 – or £10,000 above the £100,000 threshold. You not only pay £4,000 in higher-rate tax (40%) on the £10,000, but you'd also lose £5,000 of your Personal Allowance. That £5,000 portion of your income is now also subject to tax at 40%, costing you another £2,000. So out of that £10,000, you would only take home £4,000 – a 60% effective tax rate.

In simple terms, once you start earning £100,000, your Income Tax bill might go up by a larger sum than you expected due to the gradual loss of your Personal Allowance.

Defining adjusted net income

To work out your adjusted net income, start with your gross earnings. These might include:

- Your salary
- Some income from rental properties
- Some state benefits
- Interest that surpasses your Personal Savings Allowance (PSA)
- Dividends from company shares
- Some forms of trust income.

Then, deduct the following:

- "Grossed up" pension contributions, meaning what you paid in, plus tax relief
- Gift Aid donations.

Did you know...

Up until the 2013/14 tax year, the Personal Allowance was dependent on your age!

For example, people aged 65 to 74 had a £10,500 Personal Allowance, while those aged above 75 had £10,660.

As of 2024/25, though, the Personal Allowance is fixed at £12,570 for everyone who benefits from it.

Source: **HMRC**

> Joe took the time to understand my individual circumstances and requirements, offering tailored advice based on this. Thanks for such friendly, expert support. It made a daunting process feel much easier! I'd recommend Kind Wealth to anyone.
>
> **Emma on working with Kind Wealth**

You'll lose the government's free childcare benefit if your adjusted net income is £100,000 or more

From April 2024, the government expanded the existing childcare support scheme.

This extended scheme is being rolled out in phases. By September 2025, most working families with children under the age of 5 will be entitled to 30 hours of free childcare for 38 weeks of the year, or 52 weeks if you use fewer hours each week.

In England, the number of hours you may be entitled to differs depending on your child's age:

- From April 2024, you receive 15 hours free childcare a week for 2-year-olds
- From September 2024, you receive 15 hours of free childcare a week for children from 9 months old
- 30 hours of free childcare a week for 3 and 4-year-olds was already available
- From September 2025, you will receive 30 hours of free childcare a week for all under 5s.

Under the new rules, you may be able to claim free childcare from any government-approved provider (such as a nursery or registered childminder). This benefit does not apply to compulsory school hours or private school fees.

However, if you or your partner earn an adjusted net income of more than £100,000, your family is **no longer entitled to the free childcare scheme**. This is not a gradual reduction in the free childcare, you lose it all as soon as you earn over £100,000.

"

I would highly recommend Kind Wealth if you want a stress-free service.

Ben on working with Kind Wealth

Breaking down the cost of childcare in 2024

Part-time childcare

Childcare.co.uk reports that the average cost of childcare at a nursery is £6.41 an hour.

So, the average cost of sending a child to nursery part-time (25 hours a week) is £160.25 a week or, assuming 38 weeks, £6,090 a year.

If your family was eligible for 15 hours a week of free childcare for 38 weeks a year, you could send your child to nursery part-time for £64.10 a week, or £2,436 a year.

Full-time childcare

Full-time nursery attendance for a child (50 hours a week) costs £320.50 a week or, assuming 38 weeks a year, £12,179 a year.

If your family accessed 30 hours a week of free childcare, you could send your child to nursery full-time for £128.20 a week or, assuming 38 weeks a year, £4,872 a year.

As an example, if you were sending your child to nursery full-time and received a pay rise that took your earnings above £100,000, your childcare costs could suddenly jump from £4,872 to nearly £12,180 a year. This is because you'd go from paying for 20 hours a week of childcare to the full 50 hours a week.

Source: **Childcare.co.uk**

How to modify your £100,000+ income to maintain tax breaks and childcare perks

So, if you now earn more than £100,000 a year, or you're likely to soon surpass that threshold, it may mean that:

- You start to lose some or all of your tax-free Personal Allowance
- You pay more Income Tax than you expected
- You miss out on the government's rollout of the free childcare benefit in its entirety.

You might have progressed this far through our guide and thought: "So what can I do to avoid the issues that arise when I earn £100,000 or more?"

This is where it helps to employ financial planning strategies that help ensure your money is protected from the loss of key tax breaks and perks where possible.

Utilising grossed up pension contributions to retain your Personal Allowance and free childcare

Perhaps the most effective route you could consider is to reduce your adjusted net income to just under £100,000 using your pension.

Let's explore how this works.

Increasing your pension contributions lowers your adjusted net income

Whether you're employed and paying into a workplace pension, or are self-employed and making active contributions, you can use your pension to lower your adjusted net income.

Remember, your tapered Personal Allowance and the government's free childcare benefit are both measured using your adjusted net income, not your gross income.

So, funnelling any income in excess of £100,000 into your pension could mean you:

- Retain your free childcare benefit
- Maintain your access to the Personal Allowance
- Avoid the 60% effective Income Tax trap
- Put plenty away for a comfortable retirement.

It's crucial to remember that at this income level, your pension Annual Allowance stands at £60,000 as of the 2024/25 tax year. The Annual Allowance is the amount you can contribute into your pension each year without incurring an additional tax charge.

So, if your gross earnings surpass the £160,000 mark, this strategy might not be right for you.

But if your earnings sit below £160,000, using your pension to reduce your adjusted net income could be extremely financially efficient.

Tax relief on pension contributions also helps to lower your adjusted net income

You might have read the phrase "grossed up pension contributions" before.

"Grossed up pension contributions" refers to a pension contribution that has also benefited from government tax relief.

You can normally claim tax relief on pension contributions at your marginal rate of Income Tax.

Tax relief is added to pension contributions within the Annual Allowance as follows:

- Basic-rate tax relief (20%) is usually added automatically by your pension provider.
- Higher- and additional-rate tax relief (40% and 45% respectively) can be claimed through a self-assessment tax return each year.

Tax relief is extremely important for earners around the £100,000 threshold because it counts towards your adjusted net income.

This means that if your gross income was £120,000 a year, you would not necessarily need to make a £20,000 pension contribution to taper your income down to the £100,000 threshold. Tax relief would also count towards this reduction, meaning you can keep more take-home pay than you might have thought. We will show you an example of this now over the next page.

How our clients have benefited from using their pensions to retain tax breaks

1. Joan, an executive earning £125,140, makes an annual lump sum pension contribution

Joan is an executive who has had a pay rise to £125,140. Joan heard from her colleagues that she could have an unwelcome surprise tax bill at the end of the year, as well as losing her free childcare hours.

She spoke to her Kind Wealth financial adviser, who recommended that she pay £20,112 into her pension to bring her adjusted net income to £100,000. This saved Joan £10,056 in Income Tax and retained her free childcare hours. It also had the advantage of increasing her pension provision by £25,140.

See how Joan achieved this below.

	Before	After
Pension contribution made by Joan	£0	£20,112
Tax relief claimed from HMRC by pension provider	£0	£5,028
Total pension contribution	**£0**	**£25,140**
Adjusted net income	£125,140	£100,000
Personal Allowance available	£0	£12,570 (saves £5,028 tax)
Income Tax	£42,516	£37,488
Less additional tax relief claimed through self-assessment	£0	£5,028
Total Income Tax bill	**£42,516**	**£32,460**
Free childcare	Not available	Available in full

Key takeaways of Joan's pension contribution strategy:

1. Joan paid £20,112 into the pension herself, with the government adding £5,028 through tax relief. This means a total of £25,140 was paid into Joan's pension.
2. Joan also reduced her Income Tax bill by £10,056.
3. So, it only cost Joan £10,056* to have £25,140 paid into her pension.
4. Joan also retained her free childcare benefit in full, adding further savings!

***£10,056 = £20,112 (what Joan paid into her pension) less £10,056 (the amount Joan's tax bill was reduced by).**

2. Ahmed, a business owner earning £112,000, pays in a monthly pension contribution

Ahmed is a business owner and father of two, and pays himself a £112,000 salary. When he gave himself this pay rise at the start of the tax year, he was shocked to learn that his Income Tax bill might be much higher than he'd budgeted for.

Ahmed consulted his Kind Wealth financial adviser who recommended that he reroute £800 a month into his pension. In doing so, Ahmed reduced his Income Tax bill by £4,800 and added £12,000 into his pension (his contributions, plus tax relief). This strategy meant he retained his free childcare hours too.

See how Ahmed created this outcome below.

	Before	After
Pension contribution made by Ahmed	£0	£9,600 (£800 a month)
Tax relief claimed from HMRC by pension provider	£0	£2,400 (£200 a month)
Total pension contribution	**£0**	**£12,000 (£1,000 a month)**
Adjusted net income	£112,000	£100,000
Personal Allowance available	£6,570	£12,570 (saves £2,400 tax)
Income Tax	£34,632	£32,232
Less additional tax relief claimed through self-assessment	£0	£2,400
Total Income Tax bill	**£34,632**	**£29,832**
Free childcare	Not available	Available in full

Key takeaways of Ahmed's pension contribution strategy:

1. Ahmed paid £800 per month into the pension himself, with the government adding £200 a month through tax relief. This means a total of £1,000 per month / £12,000 per year was paid into Ahmed's pension.
2. Ahmed also reduced his tax bill by £4,800
3. Therefore, it only cost Ahmed £4,800* to have £12,000 paid into his pension.
4. Ahmed also retained his free childcare benefit in full, adding further savings!

***£4,800 = £9,600 (what Ahmed paid into his pension) less £4,800 (the amount Ahmed's tax bill was reduced by).**

How we can help

If you have only recently begun earning £100,000 or more – or you are approaching this threshold – you might feel overwhelmed by the potential pitfalls that come along with this achievement.

Fortunately, with a bespoke financial planning strategy in place, you may be able to:

- Use your pension to reduce the amount of Income Tax you pay
- Maintain your free childcare entitlement if you need it
- Claim the maximum amount of tax relief on your pension contributions.

Here at Kind Wealth, our sole purpose is to help families prosper.

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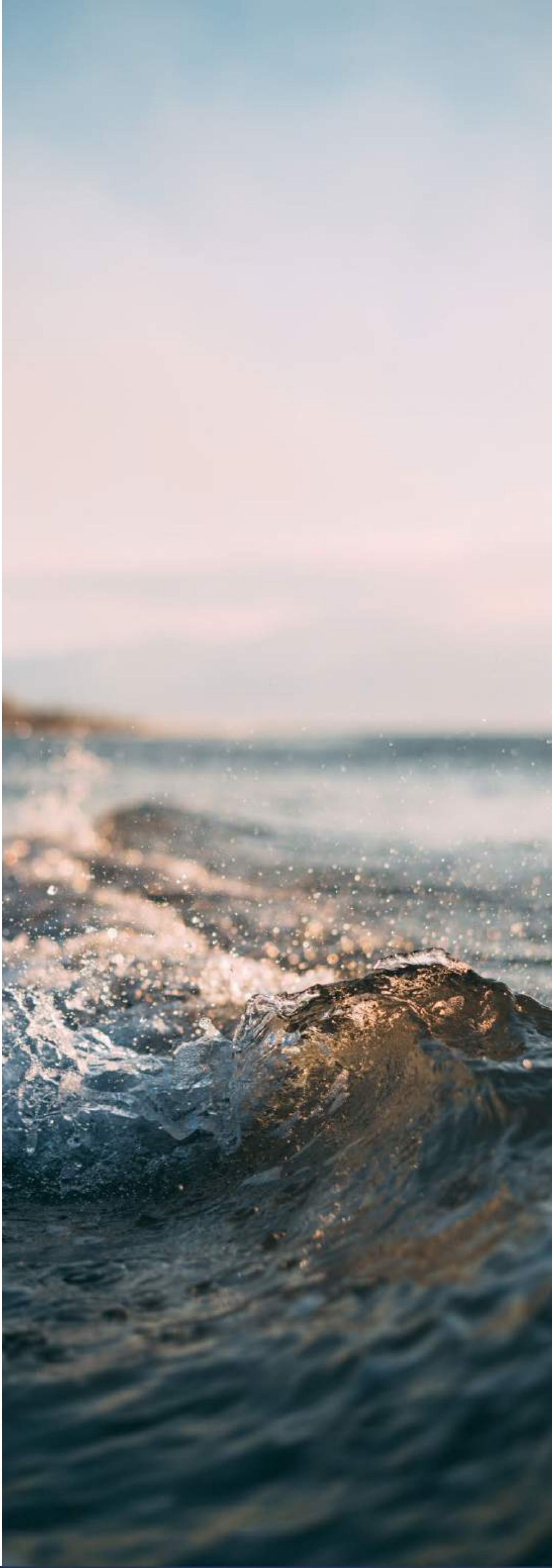
> I felt absolutely no pressure from David at all. He instantly put my mind at ease and told me all the pros and cons of my situation. Any questions or concerns, all I had to do was phone Dave who explained everything calmly and clearly.
>
> **Ian on working with Kind Wealth**



Whether you're...

- Self-employed
- A company owner
- An employed executive
- Someone approaching retirement
- Benefiting from trust income or an inheritance
- Going through divorce
- In need of mortgage advice
- A professional connection with high earning clients

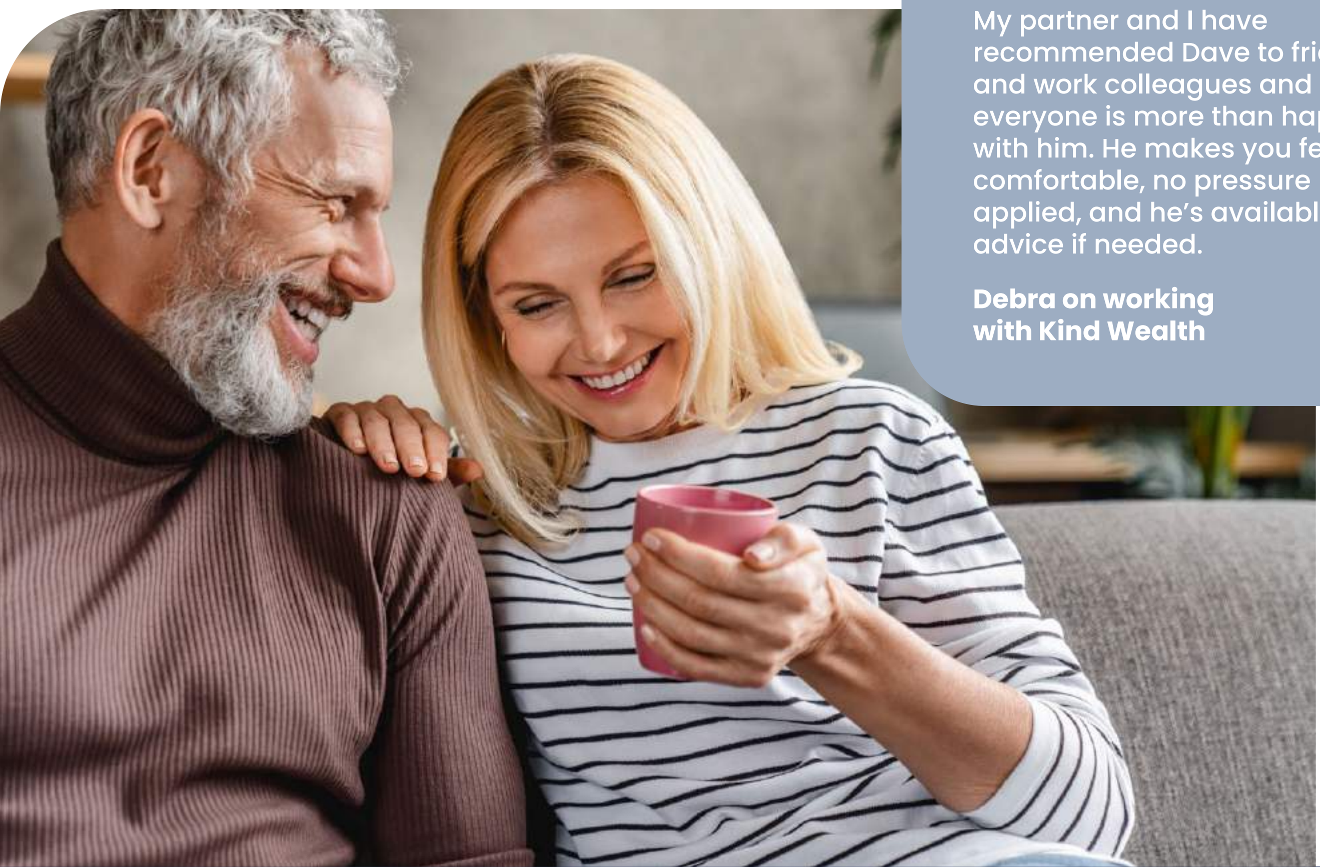
... Our approach could be life-changing.

First, we take the time to get to know you, learning about your most treasured life goals, your current situation, and your family's wider needs.

Then, we take a thorough look at your finances, combing through every detail to ensure we're designing the most appropriate, efficient, and relevant financial plan that fits just right.

Finally, we talk you through the plan and put it into action, wasting no time to help make your dreams and goals a reality.

That's not all – we'll also stay with you long-term, helping you to manage any changes to your situation over the course of your life.



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My partner and I have recommended Dave to friends and work colleagues and everyone is more than happy with him. He makes you feel comfortable, no pressure applied, and he's available for advice if needed.

Debra on working with Kind Wealth

Get in touch with Kind Wealth

We offer our services to clients all over the UK – so no matter where you're based, we can help.

enquiries@kindwealth.co.uk

0121 233 0611

Please note

This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

All contents are based on our understanding of HMRC legislation, which is subject to change.

Trusts, Inheritance Tax Planning, Estate Planning and Tax Planning are not regulated by the Financial Conduct Authority.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future performance.

The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates, and tax legislation may change in subsequent Finance Acts. Workplace pensions are regulated by The Pension Regulator.

This guide is for general information only and does not constitute advice. This information is aimed at retail clients only.

Approver Quilter Financial Services Limited & Quilter Mortgage Planning Limited. 23/05/2024
