How Income Tax Works

Money

Marginal bands, and the misunderstanding that makes people fear a pay rise.

Income tax is marginal: each band's rate applies only to the income within that band.

tax = Σ (income in each band × that band's rate)

Earning just above a threshold Not the whole salary.	**Only the excess is taxed higher**
A £1 pay rise past a threshold You are never worse off from the rate alone.	**You keep most of that £1**
Allowance It may taper away at high incomes.	**The first slice is often taxed at 0%**

THE COMMON MISTAKE

× **Refusing a raise to stay in a lower band**

✓ **Take the raise**

Bands are marginal. The only exceptions are benefit or allowance cliffs, which are separate from the rate structure.

Rates and thresholds differ by country and change yearly. General education, not tax advice.