# Marginal vs Effective Rate

Two rates that are routinely confused.

Accounting & Finance

**The marginal rate applies to the next unit of income; the effective rate is total tax over total income.**

**Effective rate = Total tax ÷ Total income**

| | |
|---|---|
| **In a 40% band**<br>On the next pound. | **Marginal rate is 40%** |
| **Effective rate**<br>Earlier bands taxed less. | **Usually much lower** |
| **Allowance withdrawal** | **Can exceed the headline rate** |

**THE COMMON MISTAKE**

× **Fearing a raise pushes all income into a higher band**

✓ **Only the excess is taxed higher**

Bands are slices, not cliffs. Earning one pound more never reduces total take-home under a standard band system.

> Allowance withdrawal can create a genuine spike where the effective marginal rate exceeds every headline band rate.