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INDIVIDUALS

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Income Tax Explained

A plain-English guide to how UK income tax works, what you'll pay on different types of income, and how it's collected.

Tax year **2026/27** · Prepared by **Harvey Dhillon** · Last reviewed **17 November 2025** · Sources: gov.uk

PERSONAL ALLOWANCE	INCOME TAX RATES	BASIC-RATE BAND	DIVIDEND ALLOWANCE
£12,570	**20% · 40% · 45%**	**£37,700**	**£500**

01 How income tax works

Income tax is charged on most of what you earn, but only on the part above your tax-free allowances. The more you earn above those thresholds, the higher the rate applied to each additional slice.

GOOD TO KNOW
You're only taxed on income above your allowances — not on your whole income.

02 The personal allowance

Most people can earn £12,570 tax-free each year through their personal allowance.

- The standard personal allowance is £12,570 for 2026/27
- It tapers by £1 for every £2 of income over £100,000
- It disappears entirely once income reaches £125,140

GOOD TO KNOW
Income between £100,000 and £125,140 carries an effective 60% marginal rate as the allowance is withdrawn.

03 The bands and rates

In England, Wales and Northern Ireland, taxable income is split into three bands above the personal allowance.

- Basic rate: 20% on taxable income up to £37,700
- Higher rate: 40% from £37,701 to £125,140
- Additional rate: 45% above £125,140

GOOD TO KNOW
Only the income that falls within each band is taxed at that band's rate.

04 Different types of income

Not all income is taxed the same way. Employment, self-employment, dividends and savings each have their own rules and allowances.

- Employment and self-employment income use the main rates above
- Dividends have a £500 allowance, then 10.75% / 35.75% / 39.35% with no National Insurance
- Savings interest has a personal savings allowance of £1,000 (basic rate) or £500 (higher rate)

GOOD TO KNOW
Additional-rate taxpayers get no personal savings allowance and no dividend allowance beyond the £500.

05 Scotland is different

If you're a Scottish taxpayer, you pay Scottish income tax on your non-savings, non-dividend income, which uses five bands and different rates.

GOOD TO KNOW
The personal allowance and the rules for dividends and savings remain UK-wide, but the main bands and rates differ in Scotland.

06 How it's collected

Most employees pay income tax automatically through PAYE, where it's deducted from each payslip. Others report and pay through Self Assessment.

- PAYE: tax deducted at source by your employer or pension provider
- Self Assessment: used by the self-employed, landlords and those with untaxed income

GOOD TO KNOW

If you have income that isn't taxed at source, you usually need to file a Self Assessment return.

Common questions

Does everyone get the full personal allowance?

No. The £12,570 allowance is reduced once your income passes £100,000 and is lost entirely at £125,140.

Do I pay National Insurance on dividends?

No, dividends are free of National Insurance, though they are subject to dividend tax rates above the £500 allowance.

Why might my tax code change mid-year?

HMRC adjusts your code to collect the right amount of tax, for example to recover an underpayment or reflect new income or benefits.

NEXT STEP

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For guidance only — this factsheet does not constitute professional advice and is not a substitute for advice based on your specific circumstances. Whilst every care has been taken in its preparation, it may contain errors for which we cannot be responsible. Figures are for the 2026/27 UK tax year (England, Wales & Northern Ireland) and may change. Scottish taxpayers face different income tax rates; dividend rates are UK-wide. Last reviewed 17 November 2025.

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