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UK income taxes are much higher than you think

UK governments systematically disguise high marginal tax rates on income as much lower marginal tax rates on salary. ***Kevin R James*** *argues that people need to know their true tax schedule to hold the government to account for its tax and spending policies.*

The true UK income tax schedule for salaried workers is a riddle wrapped in a mystery inside a enigma. You may think, "I can just look it up on the HMRC website". But that would be a mistake, and that's why it's a riddle. The HMRC income tax schedule is not really an income tax schedule at all. It is instead just one of several tools that the government uses to tax salary.

To know your true income tax rate, you must first understand the difference between salary and income. Your income is the money you can spend on goods and services, whereas your salary is your income plus the tax you pay on that income.

From an individual's perspective, it is income that matters for welfare. So, a true income tax schedule tells you how much more you need to earn in salary to *spend one more pound* (SOMP) on goods and services. The marginal income tax rate for a given level of income is then simply the SOMP for that level of income.

SOMP reveals that marginal income tax rates in the UK are higher and less progressive than is generally understood. For example, a person on a modest real income of £10,000 a year needs to earn an additional £1.77 to spend one more pound on goods and services. However, someone with an income of £56,000 or more faces only a moderately higher SOMP of £2.41.

The true marginal income tax schedule is difficult to observe (by design). As Jean-Baptiste Colbert said, "*the art of taxation consists in so plucking the goose as to obtain the largest number of feathers with the least amount of hissing*". And the best way to eliminate hissing is to lull people into a torpor by disguising the true level of taxes that they are paying.

Deriving the true income tax schedule facing salaried workers in the UK therefore requires identifying and undoing the tricks that the government uses to lull the public.

Three government tricks

The government uses three quiet tricks to conceal the true income tax schedule. Consider each in turn:

First, it hides taxes that increase with salary. It follows that the marginal tax rate on salary is considerably higher than the HMRC income tax schedule alone indicates.

Four main salary taxes need to be considered: the HMRC **income tax** (and the phaseout of the personal allowance), **employee national insurance contributions**, **employer national insurance contributions** (a significant 15 per cent of salary over £5,000) and **VAT**.

While VAT is not technically a salary tax, household spending roughly equals after-tax income. VAT therefore eliminates purchasing power as salary rises just like other salary-based taxes. To be sure, not all spending is subject to VAT. So, I assume that half of post-tax income is spent on VAT-able goods.

Second, government bases tax bands on **salary, not income**. Since a significant portion of salary is paid in taxes, higher marginal tax rates on income kick in much sooner than salary tax bands suggest.

Third, by not correcting tax bands for inflation, the government effectively moves taxpayers on a constant real salary into higher tax bands. This increases the tax they pay.

Rishi Sunak froze tax bands starting with the 2021/2022 tax year. Between April 2021 and August 2025 (the latest month for which we have data), cumulative inflation pushed down the real value of the pound by 27 per cent. To account for this inflation effect, I adjust nominal tax bands downwards by 27 per cent.

To illustrate, in 2021, the higher rate of 40 per cent kicked in at a real salary of £50,271. With inflation, that salary is now worth £39,580 in real terms. So, a worker with a constant **real salary** of £45,000 would not have had any of their salary subject to the higher rate in 2021/2022 but would have £5,420 of it subject to the higher rate in 2025/2026.

The true marginal tax rate

Combining the impact of the four main salary taxes I discussed above, adjusting for inflation and converting salary-based tax bands into their implied income-based ones, I arrive at the total marginal tax rate by income band (TMTR). SOMP then equals 1/(1 – TMTR). Table 1 summarises these results; the full step-by-step derivation can be found on my Substack here.

Table 1. Salary gain needed to "spend one more pound" (SOMP)

Income Band (Real £Y2021)	Total Marginal Tax Rate (TMTR)	SOMP = 1/(1-TMTR)
0 – 3,540	10%	£1.11
3,540 – 9,220	21.7%	£1.28
9,220 – 28,470	43.6%	£1.77
28,470 – 48,910	54.6%	£2.20
48,910 – 55,770	70.2%	£3.36
> 55,770	58.5%	£2.41

Table 1 reveals that the government has been remarkably successful at lulling Colbert's goose into a torpor and plucking many feathers indeed.

The total marginal tax rate is high at even low levels of income. A person on a modest real income of £9,220 a year already faces a rate of 43.6 per cent, implying that they must earn an additional £1.77 of salary to spend one more pound on goods and services.

Once income exceeds £9,220 a year, the true income tax schedule is fairly flat. This flatness arises not because high earners enjoy low rates, but because lower earners already face high ones.

Attention to the Budget

Reasonable people can disagree over what marginal tax rates ought to be. But the government should not obscure the true marginal tax rate schedule it chooses. Without clarity about the true income tax, it is impossible for the public to know if the government's spending and tax policies make sense.

As Labour devises its next Budget, the public must demand that it be honest, clear and transparent about how it intends to raise the money it plans to spend so that the government can be properly held to account.

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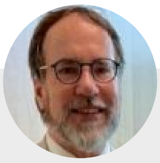

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