

## Personal Allowance and 'adjusted net income'

This guide explains what 'adjusted net income' is, how you work it out and how you use it to calculate the value of your Personal Allowance. To find out more about the Personal Allowance, including how you get it, read the related guide 'Personal Allowance' - you'll find the link under 'Further information' at the end of the page.

### What is 'adjusted net income'?

Adjusted net income is the measure of income that is used for the calculation of the income-related reductions to the Personal Allowance. It applies if you:

- are aged 65 to 74
- are aged 75 and over
- have income above £100,000 (regardless of your age)

### How to work out your adjusted net income

Adjusted net income is calculated in a series of steps.

#### Step One - work out your 'net income'

Your net income is the total of your income subject to Income Tax - including income from employment, profits from self employment, pensions and income from property, savings and dividends - less specified deductions.

The most important of the specified deductions are trading losses and payments you may have made gross to pension schemes.

#### Step Two - take away Gift Aid and pension contributions

Your net income is then reduced by the 'grossed up' amount - the amount you contribute plus the basic rate tax - of any:

- Gift Aid contributions
- pension contributions where your pension provider has already given you basic rate tax relief

#### Step Three - add back in tax relief received for certain payments

Add back any relief for payments you've made to trade unions or police organisations which were deducted in arriving at your net income in Step One.

The result is your adjusted net income.

### Adjusted net income - worked examples

#### Edward – aged 75 and over, age-related Personal Allowance not reduced

Edward is aged 75. For 2011-12, his income is made up of:

Pensions (including State Pension)	£15,000
Bank interest	<u>£ 5,000</u>
Total income	£20,000

There are no adjustments to Edward's total income, so this is his net income.

Edward's net income	£20,000
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There are no further adjustments to Edward's net income, so this is his adjusted net income.

The income limit for the Personal Allowance for people aged 75 and over is £24,000.

Edward's adjusted net income (£20,000) is less than the income limit (£24,000), so there is no reduction to his Personal Allowance.

Edward's Personal Allowance is £10,090 for the year.

### **Diana – aged 75 and over, age-related Personal Allowance partially reduced**

Diana is aged 76. For 2011-12, her income is made up of:

Pensions (including State Pension)	<u>£26,000</u>
Total income	£26,000

There are no adjustments to Diana's total income, so this is her net income.

Diana's net income	£26,000
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There are no further adjustments to Diana's net income, so this is her adjusted net income.

The income limit for the Personal Allowance for people aged 75 and over is £24,000.

Diana's adjusted net income exceeds the income limit by £2,000 (£26,000 minus £24,000). This is divided by 2 to give a reduction to her Personal Allowance of £1,000 - see below.

Personal Allowance for people aged 75 and over	£10,090
Less income-based reduction	<u>£ 1,000</u>
Diana's Personal Allowance for the year	£ 9,090

### **Charles – aged 65 to 74, age-related Personal Allowance reduced to basic Personal Allowance**

Charles is aged 68. For 2011-12, his income is made up of:

Pensions (including State Pension)	£25,000
Bank interest	£10,000
Dividends	<u>£ 5,000</u>
Total income	£40,000

There are no further adjustments to Charles' total income, so this is his net income.

Charles makes net Gift Aid donations of £1,000 (£1,250 gross - £1,000 plus £250, the value of the basic rate tax).

Net income	£40,000
Less gross Gift Aid donations	<u>£ 1,250</u>
Charles' adjusted net income	£38,750

The income limit for the Personal Allowance for people aged 65 to 74 is £24,000.

Charles' adjusted net income exceeds the income limit by £14,750 (£38,750 minus £24,000). This is divided by 2 to give a reduction to his Personal Allowance of £7,375.

Personal Allowance for people aged 65 to 74	£9,940
Less income-based reduction	<u>£7,375</u>
	£2,565

However, because Charles' adjusted net income does not exceed £100,000, his Personal Allowance is not reduced below the basic Personal Allowance. Charles' Personal Allowance is £7,475 for the year.

### **Bill – aged under 65, Personal Allowance partially reduced**

Bill is aged 50. For 2011-12, his income is made up of:

Income from self-employment	£ 85,000
Income from property	£ 20,000
Bank interest	<u>£ 10,000</u>
Total income	£115,000

Bill makes pension contributions without tax relief of £10,000.

Total income	£115,000
Less pension contributions	<u>£ 10,000</u>
Bill's net income	£105,000

There are no further adjustments to Bill's net income, so this is his adjusted net income.

The income limit for the Personal Allowance is £100,000.

Bill's adjusted net income exceeds the income limit by £5,000 (£105,000 minus £100,000). This is divided by 2 to give a reduction to his Personal Allowance of £2,500.

Personal Allowance	£7,475
Less income-based reduction	<u>£2,500</u>
Bill's Personal Allowance for the year	£4,975

### **Alice – aged under 65, Personal Allowance reduced to nil**

Alice is aged 45. Alice's income is:

Income from employment	£140,000
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Company benefits (car and medical insurance)	<u>£ 10,000</u>
Total income	£150,000

There are no further adjustments to Alice's total income, so this is her net income.

Alice makes net Gift Aid donations of £5,000 (£6,250 gross £5,000 plus £1,250, the value of the basic rate tax).

Net income	£150,000
Less gross Gift Aid donations	<u>£ 6,250</u>
Alice's adjusted net income	£143,750

The income limit for the Personal Allowance is £100,000.

Alice's adjusted net income exceeds the income limit by £43,750 (£143,750 minus £100,000). This is divided by 2 to give a reduction to her Personal Allowance of £21,875. Alice's Personal Allowance cannot be reduced below zero, so she has no Personal Allowance for the year.

### **Further information**

To find out more about the Personal Allowance, including how you get it, follow the link below.

[Personal Allowance](#)