

# 2008 Pre-Budget Report



PBRN01

24 November 2008

---

## INCOME TAX RATES, ALLOWANCES AND LIMITS AND NATIONAL INSURANCE CONTRIBUTIONS RATES AND THRESHOLDS

---

### Who is likely to be affected?

1. All individual income tax payers, employers, employees, the self employed and trustees.

### General description of the measure

2. This measure sets the income tax personal allowances and related amounts and the rates and rates limits for the 2009-10 tax year, as well as making a number of other changes.
3. For 2009-10 the Upper Earnings Limit (UEL) for primary Class 1 National Insurance Contributions (NICs) will be aligned with the level at which people start to pay higher rate income tax.
4. From 2010-11 the basic personal allowance for income tax will be reduced in two stages for those with gross incomes above £100,000 and £140,000.
5. From 2011-12 there will be higher rates of tax for income above £150,000.
6. From 2011-12 there will be increases to the dividend trust rate and the trust rate of tax.
7. From 2011-12 the NICs primary threshold will be broadly aligned with the income tax basic personal allowance.
8. From 2011-12 the main rate of Class 1 and Class 4 NICs will be increased by 0.5 per cent to 11.5 per cent and 8.5 per cent respectively.
9. From 2011-12 the Class 1 employer rate of NICs will be increased by 0.5 per cent to 13.3 per cent. The increased rate will also apply to Class 1A and Class 1B contributions.
10. From 2011-12 the additional rate of Class 1 and 4 NICs will be increased by 0.5 per cent to 1.5 per cent.

## **Operative date**

### 2009-10

11. The amounts of income tax personal allowances and related amounts and the rates and rate bands will have effect on and after 6 April 2009.
12. The UEL for Class 1 NICs will be aligned with the level at which people start to pay higher rate income tax on and after 6 April 2009.

### 2010-11

13. There will be two separate income limits for the basic personal allowance. The personal allowance will be reduced for individuals with gross incomes before personal allowances above £100,000 and £140,000 on and after 6 April 2010.

### 2011-12

14. A new 45 per cent rate of income tax will apply to taxable non-savings and savings income above £150,000 on and after 6 April 2011.
15. A new 37.5 per cent rate of tax will apply to taxable dividend income above £150,000 on and after 6 April 2011.
16. The dividend trust rate and the trust rate of tax will be increased to 37.5 per cent and 45 per cent respectively from 6 April 2011.
17. The changes to the NICs primary threshold, the main rates of Class 1, Class 4, Class 1 employer rate, Class 1A, Class 1B and the additional rates of Class 1 and Class 4 NICs will have effect on and after 6 April 2011.

## **Current law and proposed revisions**

18. For 2009-10, the main rates of income tax will be the 20 per cent basic rate and the 40 per cent higher rate.
19. The basic personal allowance for 2008-09 was increased above indexation from £5,225 to £6,035. For 2009-10 the allowance will be increased by £130 above indexation from £6,035 to £6,475.
20. The basic rate limit for 2009-10 will be increased by £800 above indexation from £34,800 to £37,400.
21. For 2009-10, all other personal allowances, the income limit for age-related allowances, the minimum amount of married couple's allowance and the starting rate limit for savings income will be increased by indexation, as set out in the table below:

## Personal allowances and rate limits for 2009-10

	2008-09	2009-10
Basic personal allowance	£6,035	£6,475
Personal allowance for those aged 65 to 74	£9,030	£9,490
Personal allowance for those aged 75 and over	£9,180	£9,640
Blind person's allowance	£1,800	£1,890
Married couple's allowance	£6,625	£6,965
Income limit for age-related allowances	£21,800	£22,900
Minimum amount of married couple's allowance	£2,540	£2,670
Basic rate limit	£34,800	£37,400
Starting rate limit for savings income	£2,320	£2,440

22. The basic personal allowance provides an amount of tax free income. All individuals entitled to the basic personal allowance receive the same amount. From 2010-11, the basic personal allowance will be subject to income limits of £100,000 and £140,000. Where an individual's gross income before personal allowances and any other deductions detailed in paragraph 25 is below or equal to the £100,000 income limit, they will continue to be entitled to the full amount of the basic personal allowance.
23. If an individual's gross income is above the income limit of £100,000, the amount of their allowance will be reduced by £1 for every £2 above the income limit up to a maximum of one half of the basic personal allowance. Because the last digit of the basic personal allowance is a five, where the full reduction applies the remaining amount of the basic personal allowance will be rounded up.
24. If an individual's gross income is above a second income limit of £140,000, the amount of their allowance will be further reduced by £1 for every £2 above the income limit up to a maximum of the full amount of the basic personal allowance.
25. For the purposes of the income-related reductions to the personal allowance, gross income comprises total income (as defined in section 23 of the Income Tax Act 2007) after the deduction of trading losses.
26. From April 2011 taxable non-savings and savings income above £150,000 will be liable to income tax at 45 per cent.
27. From 2011-12, there will be three rates of tax for dividends. Dividends otherwise taxable at the basic rate will continue to be taxable at the 10 per cent dividend ordinary rate and dividends otherwise taxable at the higher rate will continue to be taxable at the 32.5 per cent dividend upper rate. Dividends otherwise taxable at the new 45 per cent rate will be liable to income tax at a new rate of 37.5 per cent.
28. From 2011-12 the dividend trust rate will be increased from 32.5 per cent to 37.5 per cent and the trust rate of tax will be increased from 40 per cent

to 45 per cent.

29. The point at which people start to pay higher rate tax (sometimes called the “higher rate threshold”) is the total of the basic personal allowance and the basic rate limit. For 2009-10 this amount is £43,875. For 2008-09 the UEL for primary Class 1 NICs is £770 per week (£40,040 for the year). For 2009-10 the UEL will be increased to £844 per week with an annual equivalent of £43,875 for the year so that with necessary rounding to whole pounds, the UEL (which is a weekly figure) is aligned with the total of the basic personal allowance and the basic rate limit.
30. The changes to the main and additional rates of Class 1 and 4 NICs in 2011-12 will require a National Insurance Contributions Bill before they can be implemented.

### **Further advice**

31. If you have any questions about the changes to income tax, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk). If you have any questions about the changes to National Insurance Contributions, please contact Kevin Rice on 020 7147 2514 (email: kevin.rice@hmrc.gsi.gov.uk). Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)