



**Additional Rate of Income Tax and Income Related
Reduction of the Personal Allowance from 2010 -11**

Supplementary Note and Examples

23 April 2009

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Introduction

In his Budget on 22 April 2009, the Chancellor announced changes to the income tax system which are focused on individuals with the highest incomes.

From April 2010:

- the additional rate of income tax will be 50% on income over £150,000, with a rate of 42.5% for dividends; and
- the value of the personal allowance will be restricted for those with incomes over £100,000, tapering down to zero.

These changes replace the 45% income tax rate and the two-stage taper of the personal allowance announced in the 2008 Pre-Budget Report.

Supplementary Information.

Restriction of personal allowances and a new additional higher rate of tax

The changes announced by the Chancellor only affect those with income over £100,000 in 2010/11. Those with income of £100,000 or below will be unaffected by the changes.

The Chancellor announced that from 2010/11, the personal allowance would be reduced for people with incomes over £100,000. Anyone with an income below this amount will continue to receive the full amount of the personal allowance.

For those who will be affected, their personal allowance will be reduced by £1 for every £2 that their income exceeds £100,000 until the personal allowance is reduced to Nil. This is instead of the two-stage reduction announced at the Pre-Budget Report.

The point at which the personal allowance is fully reduced will depend on the level of the personal allowance for 2010/11.

The Chancellor also announced that from 2010/11 there will be 3 main rates of income tax: the basic rate (20%), the higher rate (40%) and a new additional rate (50%).

The new additional rate of tax will only apply to the amount by which someone's income for 2010/11 exceeds £150k and this replaces the 45% rate announced at the Pre-Budget Report that would have applied from 2011/12.

The following examples are for the tax year 2010/11 but use the 2009/10 figure of personal allowance and basic rate band. No account has been taken of any effect which the proposed changes to tax relief on pension contributions might have.

Tax due will be collected in the usual way through a combination of PAYE deductions during the year and payment through Self Assessment.

- **Example 1 – restricted personal allowance**
- **Example 2 – fully restricted personal allowance**
- **Example 3 – restricted personal allowance and pension contributions**
- **Example 4 – 50% rate**
- **Example 5 – 50% rate and pension contribution**

Examples for Tax Year 2010/11 (using 2009/10 figures of personal allowance and rate bands)

▪ **Example 1 – restricted personal allowance**

Income	106,000	allowance	6475
Limit	<u>100,000</u>		
Excess	<u>6,000</u>	restrict ½	<u>3000</u>
		Allow	3475

Income	106,000
Allowance	<u>3475</u>
Chargeable	102,525
	37,400 x 20% = 7,480.00
	65,125 x 40% = <u>26,050.00</u>
Tax due	<u>33,530.00</u>

▪ **Example 2 – fully restricted personal allowance**

Income	114,000	allowance	6475
Limit	<u>100,000</u>		
Excess	<u>14,000</u>	restrict ½	<u>7000</u>
		Allow	nil

Income	114,000
Allowance	<u>0</u>
Chargeable	114,000
	37,400 x 20% = 7,480.00
	76,600 x 40% = <u>30640.00</u>
Tax due	<u>38,120.00</u>

▪ **Example 3 – restricted personal allowance and pension contributions**

Income	114,000	allowance	6475
Pension Contribution	<u>5000</u>		
	109,000		
Limit	<u>100,000</u>		
Excess	<u>9,000</u>	restrict ½	<u>4500</u>
		Allow	1975

Income	114,000
Allowance	<u>1975</u>
Chargeable	112025
	37,400 x 20% = 7,480.00
	74,625 x 40% = <u>29850.00</u>
Tax due	<u>37,330.00</u>

▪ **Example 4 – 50% rate**

Income	160,000	allowance	6475
Limit	<u>100,000</u>		
Excess	<u>60,000</u>	restrict ½	<u>30,000</u>
		Allow	nil

Income	160,000		
Allowance	<u>0</u>		
Chargeable	160,000		
	37,400 x 20% =	7,480.00	
	112,600 x 40% =	45,040.00	
	10,000 x 50% =	<u>5,000.00</u>	
Tax due		<u>57,520.00</u>	

▪ **Example 5 – 50% rate and pension contribution**

Income	160,000	allowance	6475
Pension Contribution	<u>5,000</u>		
	155,000		
Limit	<u>100,000</u>		
Excess	<u>55,000</u>	restrict ½	<u>27500</u>
		Allow	nil

Income	155,000		
Allowance	<u>0</u>		
Chargeable	155,000		
	37,400 x 20% =	7,480.00	
	112,600 x 40% =	45,040.00	
	5,000 x 50% =	<u>2,500.00</u>	
Tax due		<u>55,020.00</u>	

