



Personal Tax Considerations for the better off post 6 April 2009

Alistair Darling's Pre-Budget Report (PBR), whilst providing some help for small businesses, contained many shocks for the better off! This includes a proposal for a new 'super-tax' rate of 45% for those who earn over £150,000 from 2011. National Insurance Contributions (NIC) will also increase for most in the same year. Those who earn over £100,000 will also see their personal allowance begin to diminish from 2010.

The PBR went some way to compensate lower earning individuals for the loss of the 10p tax band from 6 April 2008. This was done by permanently increasing their personal allowance from 6 April 2009 by £310 and an additional £130 to give a total allowance of £6,475 for people aged under 65.

There will be no changes in the rates of income tax which will remain at 20% and 40% for 2009. The Chancellor also reiterated promises to realign the lower threshold below which no primary NIC is due to the same level as the personal allowance for income tax purposes. This will take effect in 2011/12.

However, the major announcement was that, from 6 April 2011, the main NIC rates are to increase by half a percent for both employed and self employed individuals, to 11.5% and 8.5% respectively. At the same time, Employer's NIC will also increase by 0.5% to 13.3%. NIC on benefits will also go up by the same amount. The higher rates of National Insurance for both employees and self employed individuals will also increase to 1.5%.

To further compound the problem, the basic/higher rate income tax threshold will also be frozen in 2011/12.

How high earners and trusts will end up paying for the Government's tax cuts

High earners are clearly the main losers in this PBR. From 6 April 2010, the personal allowance for those earning over £100,000 will be restricted. For those earning between £100,000 and £140,000 the personal allowance will be restricted by £1 per £2 of income over £100,000, until a maximum reduction of one half of the full personal allowance is reached. For those earning over £140,000, the personal allowance will be further reduced at the same rate to zero.

The personal allowance will therefore fall to £3,325 when earnings reach £106,650 and will be wiped out at an income level of £146,650.

From 6 April 2011, in will come the new top rate of income tax of 45% payable on income above £150,000.

A new top rate for dividends of 37.5% will also be introduced leaving three rates of tax applicable to dividends, 10%, 32.5% and 37.5%.

Trusts will also be subject to further misery. For trusts where nobody has a right to the income as it arises, such as discretionary trusts, dividend income will be taxable at 37.5% and other income at 45%.

Limits frozen for private pension pots from 2011

The lifetime allowance and annual allowance for individuals' pension contributions will be frozen from 6 April 2011 for five years, rather than rise in line with inflation as was anticipated. From then on, the maximum amount individuals can contribute each year into their pension is £255,000. A 40% tax charge is levied on amounts contributed in excess of that limit. Furthermore, the maximum pension pot value cannot exceed £1.8 m without suffering a punitive rate of tax when taking pension benefits.

The lifetime allowance, introduced as part of the pension changes in April 2006, represents the value of an individual's pension pot. The rate of charge for lump sum pension benefits taken above this level is 55% and 25% on retained pensions. This will be seen as another attack on the rich who will face an increase in their tax liability from 2011 onwards from their funds growing while the allowance remains static.

If you have any concerns regarding the above points please do give me a call.

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