

Income Tax Changes Factsheet

This year's budget has confirmed the anticipated changes to NI and Income tax along with announcement of certain changes to next years figures personal allowance and basic rate band.

The key changes NI from 06/04/2011 are:

Individuals Income Tax

Personal allowance increased from £6,475 to £7,475

Basic rate band reduced from £37,400 to £35,000

Starting rate band increased from £2,440 to £2,560

National Insurance

Increased in the rates of NI by 1%

Increase in NI Primarily threshold by £29 per week

Decrease in NI upper earnings limit by £27 per week

The impact of the above is to increase the tax burden on those earning above £42,600 (approx) whilst lessening the tax burden for those earning less,

Some typical estimates below assuming standard personal allowance and no benefits in kind

| 2010/11 | £ | Tax | 2011/12 | £ | Tax |
|----------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| earnings | £42,600.00 | | earnings | £42,600.00 | |
| PA | £6,475.00 | | PA | £7,475.00 | |
| taxable earnings | £36,125.00 | | taxable earnings | £35,125.00 | |
| amount at BRT 20% | £36,125.00 | £7,225.00 | amount at BRT 20% | £35,000.00 | £7,000.00 |
| Amount at HRT 40% | £0.00 | | Amount at HRT 40% | £125.00 | £50.00 |
| NI lower rate 11% | £36,880.00 | £4,056.80 | NI lower rate 12% | £35,256.00 | £4,230.72 |
| | | | Ni higher rate 2% | £116.00 | £2.32 |
| tax due | | £11,281.80 | tax due | | £11,283.04 |
| Effectively no change in the tax bill | | | | | |

| 2010/11 | £ | Tax | 2011/12 | £ | Tax |
|-------------------|------------|------------------|-------------------|------------|------------------|
| Earnings | £20,000.00 | | Earnings | £20,000.00 | |
| PA | £6,475.00 | | PA | £7,475.00 | |
| taxable earnings | £13,525.00 | | taxable earnings | £12,525.00 | |
| amount at BRT 20% | £13,525.00 | £2,705.00 | amount at BRT | £12,525.00 | £2,505.00 |
| Amount at HRT 40% | £0.00 | £0.00 | Amount at HRT | £0.00 | £0.00 |
| NI lower rate 11% | £14,280.00 | £1,570.80 | NI lower rate 12% | £12,272.00 | £1,472.64 |
| tax due | | £4,275.80 | tax due | | £3,977.64 |

A saving from the previous year of £298

| 2010/11 | £ | Tax | 2011/12 | £ | Tax |
|-------------------|-------------------|-------------------|-------------------------------|-------------------|-------------------|
| earnings | £70,000.00 | | earnings | £70,000.00 | |
| PA | £6,475.00 | | PA | £7,475.00 | |
| taxable earnings | £63,525.00 | | taxable earnings | £62,525.00 | |
| amount at BRT 20% | £37,400.00 | £7,480.00 | amount at BRT | £35,000.00 | £7,000.00 |
| Amount at HRT 40% | £26,125.00 | £10,450.00 | Amount at HRT 40% | £27,525.00 | £11,010.00 |
| NI lower rate 11% | £38,168.00 | £4,198.48 | NI lower rate 12% | £35,256.00 | £4,230.72 |
| NI higher rate 1% | £26,112.00 | £261.12 | NI higher rate 2% > £42484 | £27,516.00 | £550.32 |
| tax due | | £22,389.60 | tax due | | £22,791.04 |

An increase in tax liability of £401

Additional income related changes

Child tax credit - for families with combined household income greater than £40,000 (previously £50,000) will have the benefit reduced by 41p in the £ (previously 6.67p) so household incomes exceeding £41,329 will lose the benefit completely

Working Tax credit - some elements have increased but the income disregard has reduced to £10,000 and the withdrawal rate increased to 41%

Child care relief - this will be restricted so that child care vouchers (obtained via salary sacrifice) will not benefit from either higher or additional rate relief.

Planning Options

These changes create even more impetus (where possible) for the individual to reduce their relevant incomes to maximise the potential benefits and minimise the impact of tax changes, to reshape their income or alternatively look at options to reduce the tax bill. Below are some potential options for clients to consider

Income reduction

By reducing the individual's deemed income this can prevent the loss of, or even make certain benefits available to the individual when these may have been lost due to change in the legislation there are some very beneficial methods of doing this.

Salary sacrifice can be an efficient method for reducing the employee's deemed taxable pay and can be used to provide benefits such as employer pension contributions, childcare vouchers, company cars, cycles for work, and car parking, the consequential NI saving is an additional benefit for both the employee and employer – with appropriate persuasion the employer may even pay some of their savings into the pension scheme to further enhance the benefit.

Gift Aid - If you claim the age-related Personal Allowance or Married Couple's Allowance or tax credits, it's important to let HMRC know about any Gift Aid donations. They will subtract the amount you donate plus the basic rate tax (that is, the 'grossed' up donation) from your total income and use the reduced figure to work out the value of your allowances or tax credits. This may have the effect of increasing these allowances or credits if your income was

above the relevant 'income limit' that applies. Follow the links below to find out more about these income limits

Reshaping income

Given the increase to both the employer and employee NI rates further consideration may be given by business owners to changing the shape of their income from PAYE to dividend (whilst avoiding the pitfalls of falling below the lower earnings limit and the national minimum wage)

Tax reducers

Where an individual can't or does not want to reduce their income, the next basis is to reduce the tax bill by utilising tax reducers; these invariably involve investment in high risk investments below are some options

EIS - initial tax relief of 30% of gross investment (up to £500,000 investment 2011/12 and £1m 2012 on) which can be carried back to the previous tax year and is offset against the individuals tax bill – if more relief is available than that paid then the excess will be lost.

VCT - initial tax relief of 30% of gross investment (up to £500,000 investment) and is offset against the individuals tax bill – if more relief is available than that paid then excess will be lost.

Pension contributions are a special case due to there ability to extend the basic rate tax band (and help with top slicing relief) and to reduce the impact on Personal allowances

Income tax and NI changes

Income Tax

| Income Tax allowances | 2010-11 | 2011-12 | Increase |
|----------------------------------------------|----------|----------|----------|
| Personal Allowance (1) | £6,475 | £7,475 | £1,000 |
| Income limit for Personal Allowance | £100,000 | £100,000 | £0 |
| Personal Allowance for people aged 65-74 | £9,490 | £9,940 | £450 |
| Personal Allowance for people aged 75 + | £9,640 | £10,090 | £450 |
| Married Couple's Allowance | £6,965 | £7,295 | £330 |
| Income limit for age-related allowances | £22,900 | £24,000 | £1,100 |
| Minimum amount of Married Couple's Allowance | £2,670 | £2,800 | £130 |
| Blind Person's Allowance | £1,890 | £1,980 | £90 |

| Income Tax rates and taxable bands | 2011-12 | 2011-12 | Increase/ decrease |
|------------------------------------|----------------------|----------------------|-----------------------|
| Starting rate for savings: 10%* | £0-£2,440 | £0- £2,560 | £120 |
| Basic rate: 20% | £0- £37,400 | £0- £35,000 | -£2,400 |
| Higher rate: 40% | £37,401- £150,000 | £35,001- £150,000 | +2,400 |
| Additional rate: 50% | Over £150,000 | Over £150,000 | No change |

National Insurance contributions - rates and allowances

| £ per week | 2010-11 | 2011-12 | Increase/ Decrease |
|------------------------------------------------------------------------------------|-------------|------------|-----------------------|
| Lower earnings limit, primary Class 1 | £97 | £102 | £5 |
| Upper earnings limit, primary Class 1 | £844 | £817 | -£27 |
| Upper accrual point | £770 | £770 | No change |
| Primary threshold | £110 | £139 | £29 |
| Secondary threshold | £110 | £136 | £26 |
| Employees' primary Class 1 rate between primary threshold and upper earnings limit | 11% | 12% | 1% |
| Employees' primary Class 1 rate above upper earnings limit | 1% | 2% | 1% |
| Class 1A rate on employer provided benefits (1) | 12.8% | 13.8% | 1% |
| Employees' contracted-out rebate | 1.6% | 1.6% | No change |
| Married women's reduced rate between primary threshold and upper earnings limit | 4.85% | 5.85% | 1% |
| Married women's rate above upper earnings limit | 1% | 2% | 1% |
| Employers' secondary Class 1 rate above secondary threshold | 12.8% | 13.8% | 1% |
| Employers' contracted-out rebate, salary-related schemes | 3.7% | 3.7% | No change |
| Employers' contracted-out rebate, money-purchase | 1.4% | 1.4% | No change |
| Class 2 rate | £2.40 | £2.50 | £0.10 |
| Class 2 small earnings exception | £5,075 pa | £5,315 pa | £240 |
| Special Class 2 rate for share fishermen | £3.05 | £3.15 | £0.10 |
| Special Class 2 rate for volunteer development workers | £4.85 | £5.10 | £0.25 |
| Class 3 rate | £12.05 | £12.60 | £0.55 |
| Class 4 lower profits limit | £5, 715pa | £7,225 pa | £1510 |
| Class 4 upper profits limit | £43, 875 pa | £42,475 pa | -£1400 |
| Class 4 rate between lower profits limit and upper profits limit | 8% | 9% | 1% |
| Class 4 rate above upper profits limit | 1% | 2% | 1% |
| Additional primary Class 1 percentage rate on deferred employments | 1% | 2% | 1% |
| Additional Class 4 percentage rate where deferment has | 1% | 2% | 1% |

National Insurance contributions - rates and allowances

| £ per week | 2010-11 | 2011-12 | Increase/ Decrease |
|--------------|---------|---------|-----------------------|
| been granted | | | |