

# Budget 2009



BN01

22 April 2009

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## ADDITIONAL RATE OF INCOME TAX AND INCOME-RELATED REDUCTION OF THE PERSONAL ALLOWANCE FROM 2010-11

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### Who is likely to be affected?

1. Income tax payers.

### General description of the measure

2. Budget 2009, has announced the following income tax changes:
  - from 2010-11, there will be an additional higher rate of 50 per cent for taxable income above £150,000;
  - from 2010-11 the basic personal allowance for income tax will be gradually reduced to nil for individuals with "adjusted net incomes" above £100,000;
  - from 2010-11 there will be increases to the trust rate and dividend trust rate to match those for income tax; and
  - the measure includes new powers to vary the income tax rates for the charges that apply to registered pension schemes.

These changes replace the announcements made at the 2008 Pre-Budget Report. The reduction of personal allowances affects those with incomes over £100,000 and the new tax rate affects those with incomes over £150,000.

### Operative date

3. The additional rate of income tax, the reduction to the personal allowance and the increases to the trust rate and dividend trust rate will have effect on and after 6 April 2010.

### Current law and proposed revisions

4. For 2009-10, there are two main rates of income tax. The 20 per cent basic rate of income tax applies to taxable income up to £37,400. The 40 per cent higher rate applies to taxable income above £37,400. From April 2010, a 50 per cent additional rate of tax will apply to taxable income above £150,000.

5. From 2010-11 there will be three rates of tax for dividends. Dividends otherwise taxable at the 20 per cent basic rate will continue to be taxable at the 10 per cent dividend ordinary rate and dividends otherwise taxable at the 40 per cent higher rate will continue to be taxable at the 32.5 per cent dividend upper rate. Dividends otherwise taxable at the new 50 per cent additional rate will be taxable at a new 42.5 per cent dividend additional rate.
6. From 2010-11, the dividend trust rate will be increased from 32.5 per cent to 42.5 per cent and the trust rate will be increased from 40 per cent to 50 per cent.
7. 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 a single income limit of £100,000. Where an individual's adjusted net income (see paragraph 9) is below or equal to the £100,000 limit, they will continue to be entitled to the full amount of the basic personal allowance.
8. From 2010-11, where an individual's adjusted net income is above the income limit of £100,000, the amount of the allowance will be reduced by £1 for every £2 above the income limit. The personal allowance will be reduced to nil from this income limit instead of the two-stage reduction announced at the Pre-Budget Report.
9. "Adjusted net income" is the measure of an individual's income that is used for the calculation of the existing income-related reductions to personal allowances those aged between 65 and 74, and for those aged 75 and over. Adjusted net income is calculated in a series of steps. The starting point is "net income" which is the total of the individual's income subject to income tax less specified deductions, the most important of which are trading losses and payments made gross to pension schemes. This net income is then reduced by the grossed-up amount of the individual's Gift Aid contributions and the grossed-up amount of the individual's pension contributions which have received tax relief at source. The final step is to add back any relief for payments to trade unions or police organisations deducted in arriving at the individual's net income. The result is the individual's adjusted net income.
10. The tax rates for charges applying to registered pension schemes are generally linked to the highest rate of income tax. There are existing powers to vary the rates for some of these charges by Statutory Instrument. This measure includes powers to vary the rates for the remaining charges, again through secondary legislation, taking into account the new additional higher rate of income tax.

### **Further advice**

11. If you have any questions about this change except in connection with registered pension schemes, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).

12. If you have any questions about the change in connection with registered pension schemes, please contact Claire Gough on 020 7147 0548 (email: [claire.gough@hmrc.gsi.gov.uk](mailto:claire.gough@hmrc.gsi.gov.uk)). Information about Budget measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)