

Taxation Update for Higher Earners

Changes to Personal Allowances.

The Standard Personal Allowance for individuals is £6,475. This is the amount of tax free income you can receive. Your own Personal Allowance may be different if you have adjustments relating to previous tax years. However, from 6th April 2010, for each £2 of taxable income above £100,000 your Personal Allowance will be reduced by £1. This creates a marginal tax rate of 60% on earnings between £100,000 and £112,950.

Changes to Income Tax Rate

From 6th April 2010 the income tax bands on earnings above the Personal Allowance are:

- £0-37,400 at the basic rate (20%)
- £37,401-£150,000 at the higher rate (40%)
- the new top rate of 50% for incomes above £150,000.

Tax on dividends will also have a new top rate for those with taxable income of £150,000+ of 42.5%.

Changes to Tax Relief on Pension Contributions (until 5th April 2011)

Personal Contributions to Pensions qualify for income tax relief.

Tax relief for higher earners is restricted until April 2011 by the application of a Special Annual Allowance. This applies to individuals with taxable income above £130,000 in any of the current or previous three tax years. The Special Allowance is £20,000. For those with a history of higher contributions the Special Allowance can be increased to the lower of £30,000 or the mean of the previous three years' contributions. Pension contributions up to the level of the Special Allowance get full tax relief. Higher amounts have relief restricted to 20%.

If a pattern of regular contributions (at least quarterly) was in place before 22nd April 2009 then it is considered to be outside the Special Allowance.

The Special Allowance includes Company Pension Contributions.

For individuals with taxable income of less than £130,000 the maximum total pension contribution is still 100% of earned income with full tax relief.

Capital Gains Tax

For the tax year 2010/11 the rate of Capital Gains Tax remains at 18%. The amount of free gains remains at £10,100.

From April 2011: Tax Relief on Pensions

Tax relief on pension contributions for individuals with incomes over £150,000 will gradually be tapered from 50% to the 20% rate.

For example:

- those with incomes of £165,000 would have tax relief of 35% and above
- those with incomes of £180,000 would have tax relief of 20%.

If your total earned income PLUS personal pension contributions PLUS charitable donations is above £130,000 then you may be affected by these changes and you should seek advice.

From April 2011: National Insurance Contributions

National Insurance Contributions for employees, employers and the self-employed will all increase by 1% on 6th April 2011.

If you would like further information or advice on these matters please contact us: Tel: 020 3167 4900
Email: workflow@lepretre.co.uk



*To tax and to please...
is not given to man.*

Edmund Burke (1729-97)

