



## Personal measures

### Income tax

Following the compensation arrangements arising from the abolition of the 10% rate band, the Government will make permanent the £600 increase in the personal allowance with a further increase of £130 above indexation, meaning basic rate taxpayers pay £145 less a year in tax in 2009/10.

The basic rate limit for 2009/10 will be increased by £800 above indexation to £37,400 (2008/09 - £34,800).

From 2010/11, those with gross income in excess of £100,000 will lose some or all of their personal allowances. The basic allowance will be scaled back in two stages:

- where gross income is between £100,000 and £140,000, to a minimum of 50%, and
- where gross income exceeds £140,000, the remaining personal allowance will be reduced to nil..

The scaling will be achieved by reducing the allowance by £1 for every £2 by which gross income exceeds the £100,000 and £140,000 thresholds.

Also announced for 2011/12 are new higher rates of tax:

- for those with higher incomes, a tax rate of 45% will apply to savings and non-savings income over £150,000
- a new 37.5% rate of tax will apply to taxable dividend income above £150,000
- the rate of tax for trusts will be increased to 45%, with trust dividend income liable at 37.5%.

### Comment

*Making the compensation arrangements permanent is an admission that they got it wrong abolishing the 10% starting rate of Income tax. The above inflation increases in personal allowances and the basic rate limit are particularly welcome measures to reduce most taxpayers' tax bills. The sting in the tail for taxpayers with income over £100,000 is the promise of much bigger tax liabilities to come and the increases in national insurance do offset the savings.*



## National Insurance Contributions

For 2009/10 the Upper Earnings Limit (UEL) for primary Class 1 National Insurance Contributions (NICs) will be aligned with the level at which people start to pay higher rate income tax. The UEL will therefore be £43,875 (2008/09 £40,040). This is equivalent to earning £844 per week (2008/09 £770).

The Class 1 and Class 4 rates of contribution remain unchanged until April 2011.

Class 2 NICs increase by 10p to £2.40 per week and Class 3 voluntary contributions go up by £3.95 to £12.05 per week. The Government is to reduce the burden on the self-employed by aligning the payment dates of Class 2 NICs with those for Self Assessment liabilities. This will reduce the number of bills issued. There will also be improved information to contributors.

For 2011/12, and thereafter, the Chancellor announced an increase of 0.5% to the main NIC rates:

- the Class 1 primary (employee) rate increases to 11.5% on earnings between the primary and upper thresholds and to 1.5% thereafter
- the Class 1 secondary (employer) rate increases to 13.3% on earnings over the primary threshold
- Class 1A and Class 1B NICs will also increase to 13.3%
- Class 4 NICs will increase to 8.5% (1.5% above the upper limit).

### *Comment*

*A drawback of the above inflation increase in the basic rate tax threshold is the increase in national insurance due to the upper earnings threshold being raised. Again there is the promise of higher liabilities in the future particularly for higher rate taxpayers who see the national insurance on amounts over the upper threshold increase by 50%!*

## Pension savings

The limits on annual and lifetime investment have risen each year since 2006/07 and will continue to do so until 2010/11. The Chancellor announced that the limits will stay the same for the following five years – at £255,000 and £1.8 million.

### *Comment*

*At this time it is impossible to determine the impact of this freeze. It may be relevant to well funded final salary schemes and a few high earners who want to make substantial pension contributions to avoid the new 45% tax rate.*



## Child benefit

The Chancellor announced that the increase in child benefit rates due in April 2009 will be brought forward to 5 January 2009.

The weekly rate for the first child will increase to £20, with the rate for other children increasing to £13.20 per week.

## Child tax credit

Bringing forward promised increases in CTC, the Chancellor announced that the child element will increase to £2,235 from April 2009, while the disabled child element will increase at the same time to £2,670.

### *Comment*

*These are welcome advances of three months in two child related reliefs.*

## State Pension

The Chancellor announced that although the full State Pension will not rise to £95.25 per week until April 2009, it will make a payment of £60 to pensioners "in the new year", equivalent to bringing forward the rise.

Also, the standard minimum income guarantee in Pension Credit will rise by £5.95 to £130 per week for single pensioners and by £9.10 to £198.45 a week for pensioner couples.

## Saving Gateway scheme

A new state supported saving scheme, the Saving Gateway, is to be rolled out nationally in 2010, in a bid to encourage up to eight million low income earners to save money.

Under the scheme, the Government will contribute 50p for every £1 that is saved. A maximum payment of £300 will be made once an account holder has been saving for two years, and the contribution will only be applied for those months in which no withdrawals have been made.

The Saving Gateway will be available through a range of banks, building societies, credit unions, and the Post Office.

### *Comment*

*This is another Government scheme to be introduced much later for lower earners. It has been trailed since 2001 and was announced in the budget earlier this year. The scheme is likely to be available to people who receive certain benefits and tax credits that perhaps do not have surplus money to make regular savings.*



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CHARTERED ACCOUNTANTS

## Mortgages

The Government has said it is committed to supporting households, through:

- increasing the generosity of the Support for Mortgage Interest scheme
- extending the Mortgage Rescue scheme to cover second charge lending
- obtaining a commitment from major lenders not to initiate repossession action until at least three months after an owner occupier goes into arrears
- better access to free and impartial debt advice.

### *Comment*

*With many banks now partly owned by the Government it will be interesting to see whether they can ensure that the banks implement these measures*

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