

Income tax

Starting, basic and higher rates

<i>Band of taxable income</i>	<i>Band</i>	<i>Rate</i>	<i>Tax</i>	<i>Cumulative tax</i>
£	£	%	£	£
2009–10				
0–37,400	37,400	20	7,480.00	7,480.00
Over 37,400	–	40	–	–
2008–09				
0–34,800	34,800	20	6,960.00	6,960.00
Over £34,800	–	40	–	–

Taxation of savings: From 2008–09 onwards the starting rate band is abolished. A new starting rate for savings band for individuals is introduced. For 2008–09 and 2009–10 the band is £2,320 and £2,440 respectively. Where an individual's non-savings income is less than the starting rate limit for savings, the savings income is taxable at the 10% starting rate for savings up to the limit. Where non-savings income exceeds the limit, the starting rate for savings does not apply. Savings income includes interest from banks and building societies, interest distributions from authorised unit trusts, interest on gilts and other securities including corporate bonds, purchased life annuities and discounts. Where income does not exceed the basic rate limit, there will be no further tax to pay on savings income from which the 20% tax rate has been deducted, and any tax over-deducted is repayable. Higher rate taxpayers are liable to pay tax at 40% on that part of their savings income falling above the higher rate limit. Savings income is generally treated as the second top slice of income behind dividends. Non-taxpayers may apply to have interest paid without deduction of tax where their total income is expected to be covered by personal allowances. Taxpayers who are entitled to a refund of tax deducted from interest can claim the refund using form R40.

Taxation of dividends: UK and foreign dividends (except those foreign dividends taxed under the remittance basis) form the top slice of taxable income. Where income does not exceed the basic rate limit the rate is 10% (applied to the dividend grossed-up by a tax credit of $\frac{1}{9}$) so that the liability is met by the tax credit. Higher rate taxpayers are liable to pay tax at 32.5% on that part of their dividend income falling above the higher rate limit. See TA 1988 s 1A. A non-payable tax credit of one-ninth of the dividend was extended to individuals in receipt of dividends from non-UK resident companies where they had a holding of less than 10% and the company is not an offshore fund, by ITTOIA 2005 s 397A on or after 6 April 2008. A non-payable tax credit is also to be made available to taxpayers with a holding of 10% or more with effect on or after 22 April 2009.

Higher Rate Income Tax: From 6 April 2010 there will be an additional higher rate of income tax of 50% payable by taxpayers with taxable income in excess of £150,000. Dividend income will be taxed at 42.5%.

Construction industry sub-contractors rate of deduction at source (from 6 April 2007): (SI 2007 No 46)

Registered sub-contractors	20%	Unregistered sub-contractors	30%
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Taxation of trusts

	<i>Rate applicable to trusts</i>	<i>Dividend trust rate</i>
From 2004–05 onwards	40%	32.5%

Vulnerable beneficiaries: From 2004–05 onwards, trustees can be taxed (on election) on trust income as if it were income of the vulnerable beneficiary taking into account the beneficiary's personal allowances, starting and basic rate bands (FA 2005 ss 23–45).

From 2010–11 onwards: There will be increases in the trust rate to 50% and the dividend trust rate to 42.5%.

Table of income tax reliefs

	2009-10	2008-09
	£	£
Personal allowance⁵ (age under 65)	6,475	6,035
<i>Age allowance¹</i>		
Total income limit	22,900	21,800
Personal allowance age 65-74	9,490	9,030
Not beneficial if individual's total income exceeds	28,930	27,790
Personal allowance age 75 and over	9,640	9,180
Not beneficial if individual's total income exceeds	29,230	28,090
Married couple's allowance^{2,4}		
Elder partner 65 before 6.4.2000		
Basic allowance	2,670	2,540
<i>Age allowance^{3,4}</i>		
Total income limit	22,900	21,800
Neither partner aged 75 or over	N/A	6,535
Not beneficial if relevant partner ³ under 65 and his total income exceeds	N/A	29,790
65-74 and his total income exceeds	N/A	35,780
Either partner aged 75 and over	6,965	6,625
Not beneficial if relevant partner ³ under 65 and his total income exceeds	31,490	29,970
65-74 and his total income exceeds	37,520	35,960
75 or over and his total income exceeds	37,820	36,260
Blind person's allowance⁶	1,890	1,800

¹ The higher age allowances are available if the claimant's total income does not exceed the statutory income limit.

Where the total income exceeds the statutory limit, the maximum allowance is reduced by one-half of the excess until it is reduced to the ordinary personal allowance.

² The universal married couple's allowance was withdrawn for 2000-01 onwards but continues to be available to any married couple or, from 2005-06, civil partnership where at least one spouse or partner was born before 6 April 1935.

The relief is given as a reduction in income tax liability restricted to the lower of 10% of the amount of the allowance or the claimant's total income tax liability.

³ The higher age allowances are available if the claimant's total income does not exceed the statutory income limit (subject to relief given as a reduction in tax liability as in note 2 above).

Where the total income exceeds the statutory limit, the maximum allowance is reduced by one-half of the excess (less any reduction made in the personal age allowance as in note 1 above) but it cannot be reduced to less than the basic couple's allowance.

⁴ For marriages entered into before 5 December 2005, married couple's allowance is given to the husband (subject to right of transfer to wife), the amount of the allowance being determined by the level of the husband's income. For marriages or civil partnerships entered into on or after that date, the allowance is given to whichever of the two partners has the higher total income for the tax year in question, the amount of the allowance being determined by the level of that partner's income (subject to the right to transfer half or all of the basic allowance or excess allowances to the partner). Couples married before 5 December 2005 may make a joint election to be brought within the above rules for couples marrying on or after that date. The election must be made before the start of the first tax year for which it is to have effect. It will continue to have effect for all subsequent tax years and is irrevocable.

⁵ From 2010-11, the basic personal allowance for income tax will be gradually reduced to nil for individuals with adjusted net incomes in excess of £100,000.

⁶ The allowance is available for persons who are registered blind, but not for persons registered partially sighted.

National insurance contributions

From 6 April 2009

Class 1 contributions¹				
Earnings limits and threshold		Weekly £	Monthly £	Yearly £
Lower earnings limit		95	412	4,940
Earnings threshold		110	476	5,715
Upper earnings limit		844	3,656	43,875
Upper accruals point		770	3,337	40,040
Not contracted out		Employees' contributions		Employers' contributions
<i>Weekly earnings:</i>	£110.01–£844	11%		12.8%
	Over £844	1%		12.8%
Contracted out			<i>Salary-related schemes</i>	<i>Money purchase schemes</i>
<i>Weekly earnings:</i>	£110.01–£770	9.4%	9.1%	11.4%
	£770–£844	11%	12.8%	12.8%
	Over £844	1%	12.8%	12.8%
	– rebate £95–£110	1.6% ²	3.7%	1.4%
Women at reduced rate				
<i>Weekly earnings:</i>	£110.01–£844	4.85%		<i>as above</i>
	Over £844	1%		<i>as above</i>
Class 1A and Class 1B contributions				12.8%

¹ Employees' rates are nil for children under 16, men over 65 and women over 60 but employers' contributions are still payable. NICs are not payable on earnings up to the earnings threshold.

² The rebate is given on earnings between the lower earnings limit and the earnings threshold. The rebate for employees is given to employers to the extent that insufficient contributions have been paid by the employee for offset.

From 6 April 2008–5 April 2009

Class 1 contributions¹				
Earnings limits and threshold		Weekly £	Monthly £	Yearly £
Lower earnings limit		90	390	4,680
Earnings threshold		105	453	5,435
Upper earnings limit		770	3,337	40,040
Not contracted out		Employees' contributions		Employers' contributions
<i>Weekly earnings:</i>	£105.01–£770	11%		12.8%
	Over £770	1%		12.8%
Contracted out			<i>Salary-related schemes</i>	<i>Money purchase schemes</i>
<i>Weekly earnings:</i>	£105.01–£770	9.4%	9.1%	11.4%
	Over £770	1%	12.8%	12.8%
	– rebate £90–£105	1.6% ²	3.7%	1.4%
Women at reduced rate				
<i>Weekly earnings:</i>	£105.01–£770	4.85%		<i>as above</i>
	Over £770	1%		<i>as above</i>
Class 1A and Class 1B contributions				12.8%

¹ Employees' rates are nil for children under 16, men over 65 and women over 60 but employers' contributions are still payable. NICs are not payable on earnings up to the earnings threshold.

² The rebate is given on earnings between the lower earnings limit and the earnings threshold. The rebate for employees is given to employers to the extent that insufficient contributions have been paid by the employee for offset.

Class 2, 3 and 4 contributions

	2009-10	2008-09
Class 2 (self-employed)		
Flat rate—per week	£2.40	2.30
Share fishermen—per week	£3.05	2.95
Volunteer development workers—per week	£4.75	4.50
Small earning exception—per year	£5,075	4,825
Class 3 (voluntary contributions)		
Flat rate—per week	£12.05	8.10
Class 4 (self-employed) ¹		
Lower annual profits limit	£5,715	£5,435
Upper annual profits limit	£43,875	£40,040
Rate between lower and upper limits	8%	8%
Rate on profits above upper limit	1%	1%
Maximum contributions		
Class 1 or Class 1/Class 2 ²	4,279.22	3,876.95
– plus rate on earnings above upper limit	1%	1%
Class 4 limiting amount ³	3,180.00	2,890.30
– plus rate on profits above upper limit	1%	1%

¹ Not payable if pensionable age is reached by the beginning of the tax year.

² Where an earner has more than one employment (including self-employment), liability for Class 1 or Class 1 and Class 2 contributions cannot exceed a maximum amount equal to 53 employees' Class 1 contributions at the maximum standard rate, plus, from 2003-04 onwards, 1% on earnings over the individual's upper earnings limit (which varies depending on individual circumstances).

³ Where Class 4 contributions are payable in addition to Class 1 and/or Class 2 contributions, liability for Class 4 contributions cannot exceed such an amount as, when added to the Class 1/Class 2 contributions payable (after applying the maximum if appropriate), equals the limiting amount. The limiting amount is the maximum Class 4 contributions payable (including, from 2003-04 onwards, 1% on earnings over the upper profit limit) plus 53 Class 2 contributions.