

Rates and allowances - Income Tax

Income Tax allowances

Income Tax allowances table

Income Tax allowances	2007-08	2008-09	2009-10
Personal Allowance	£5,225	£6,035	£6,475
Personal Allowance for people aged 65-74 (1)	£7,550	£9,030	£9,490
Personal Allowance for people aged 75 and over (1)	£7,690	£9,180	£9,640
Married Couple's Allowance (born before 6th April 1935 but aged under 75) (1)(2)(3)	£6,285	£6,535	Not applicable
Married Couple's Allowance - aged 75 and over (1) (2)	£6,365	£6,625	£6,965
Income limit for age-related allowances	£20,900	£21,800	£22,900
Minimum amount of Married Couple's Allowance	£2,440	£2,540	£2,670
Blind Person's Allowance	£1,730	£1,800	£1,890

(1) These allowances reduce where the income is above the income limit – by £1 for every £2 of income above the limit. However they will never be less than the basic Personal Allowance or minimum amount of Married Couple's Allowance.

(2) Tax relief for the Married Couple's allowance is given at the rate of 10 per cent.

(3) In the 2009-10 tax year all Married Couple's Allowance claimants in this category will become 75 at some point during the year and will therefore be entitled to the higher amount of the allowance - for those aged 75 and over.

Income Tax rates and taxable bands

Income Tax rates and taxable bands		
	2007-08	
Starting rate: 10%	£0-£2,230	
Basic rate: 22%	£2,231-£34,600	
Higher rate: 40%	Over £34,600	
Income Tax rates and taxable bands		
	2008-09	2009-10
Starting rate for savings: 10%*	£0-£2,320	£0-£2,440
Basic rate: 20%	£0-£34,800	£0-£37,400
Higher rate: 40%	Over £34,800	Over £37,400

* From 2008-09 there is a 10 per cent starting rate for savings income only. If your non-savings income is above this limit then the 10 per cent starting rate for savings will not apply.

The rates available for dividends are the 10 per cent ordinary rate and the 32.5 per cent dividend upper rate.

Capital Gains Tax rates and annual tax-free allowances

Each tax year you have an annual tax-free allowance – known as the ‘Annual Exempt Amount’. You only pay tax on total net gains above this amount, using the Capital Gains Tax rate for that tax year. You may qualify for Indexation Allowance for certain disposals before 6 April 2008.

Annual tax-free allowances

Nearly everyone who lives in the UK will get the Annual Exempt Amount. This allows you to receive some normally taxable gains ‘tax-free’. There are different Annual Exempt Amounts for individuals (including personal representatives) and most trustees. The amounts are set for each tax year.

Annual Exempt Amounts for individuals and trustees		
Annual Exempt Amount	2007-08 (£)	2008-09 (£)
Individuals, personal representatives & trustees for vulnerable persons	9,200	9,600
Other trustees	4,600	4,800

Personal representatives get the Annual Exempt Amount for the tax year in which an individual dies and the next two tax years.

For 2008-09 and later years, you don't get the Annual Exempt Amount if you are not domiciled in the UK and claim the special ‘remittance’ basis of tax - which means you only pay Capital Gains Tax on gains you bring into the UK and gains on assets located in the UK.

Tax rates and thresholds

2008-09

There is a single rate of Capital Gains Tax of 18 per cent for individuals, trustees and personal representatives.

2007-08

The rates of Capital Gains Tax for individuals for 2007-08 are 10 per cent, 20 per cent and 40 per cent depending on your income.

You must always work out your Income Tax liability before you work out your liability to Capital Gains Tax. The tax bands (see the table below) are first set against your income and what's left is set against your Capital Gains to work out your liability to Capital Gains Tax.

Capital Gains Tax 2007-08 tax rates and tax bands for individuals		
2007-08 Capital Gains Tax rates	When to use it	2007-08 tax bands
10%	If the starting rate band has not been fully used against your taxable income, you can use the remainder to set against your capital gains	Starting rate band: £0-£2,230
20%	If the basic rate band has not been fully used against your taxable income, you can use the remainder to set against your capital gains	Basic rate band: £2,231-£34,600
40%	Once the starting rate bands and the basic rate band have been fully used, you pay Capital Gains Tax at 40%	Higher rate band: Over £34,600

The rate of Capital Gains Tax for most trustees and all personal representatives is 40%.

Capital Gains Tax - An example

Your taxable gains after deducting the Annual Exempt Amount for 2007-08 are £50,600.

You work out your Income Tax liability first.
Your taxable income after deducting all personal allowances and reliefs is £20,000.

The starting rate band is £0 to £2,230 and this is fully set against your income.

Basic rate tax is charged on £32,370 (£34,600 less £2,230) and you set £17,770 (£20,000 less £2,230) of this band against your remaining income.

You use the rest of the £14,600 of the basic rate band (£32,370 less £17,770) to set against your capital gains. This is taxed at 20%. You must pay 40% tax on the balance of £36,000 of your capital gains (£50,600 gains less £14,600)

You must pay Capital Gains Tax on your gains of £50,600, worked out as follows:

£14,600 at 20% = £ 2,920
£36,000 at 40% = £14,400
Total Capital Gains Tax due = £17,320

Indexation Allowance

You will qualify for Indexation Allowance if you owned your asset on 31 March 1998 and disposed of it before 6 April 2008.

It works by taking account of inflation between March 1982 and April 1998 on the cost of the asset, including incidental purchase costs. From April 1998, Indexation Allowance was replaced by Taper Relief. Indexation can reduce your gains to nil, but it cannot create or increase a loss.

You can use the table below to look up the inflation figure to April 1998 for the month you bought or acquired the asset.

You multiply the inflation figure by the cost - usually the amount you spent - to work out the Indexation Allowance.

For example, you bought a house for £10,000 in June 1989. You look across the columns to find 1989 and then look down the column until you find the row for June.
Your inflation figure for June 1989 is 0.409. The Indexation Allowance is therefore £10,000 x 0.409 or £4,090.

If you had other costs at different times, for example allowable improvement costs, you would work out the Indexation Allowance separately for each cost.

Inflation factors from the month you incurred the cost to April 1998								
	1982	1983	1984	1985	1986	1987	1988	1989
Jan		0.968	0.872	0.783	0.689	0.626	0.574	0.465
Feb		0.960	0.865	0.769	0.683	0.620	0.568	0.454
Mar	1.047	0.956	0.859	0.752	0.681	0.616	0.562	0.448
Apr	1.006	0.929	0.834	0.716	0.665	0.597	0.537	0.423
May	0.992	0.921	0.828	0.708	0.662	0.596	0.531	0.414
Jun	0.987	0.917	0.823	0.704	0.663	0.596	0.525	0.409
Jul	0.986	0.906	0.825	0.707	0.667	0.597	0.524	0.408
Aug	0.985	0.898	0.808	0.703	0.662	0.593	0.507	0.404
Sep	0.987	0.889	0.804	0.704	0.654	0.588	0.500	0.395
Oct	0.977	0.883	0.793	0.701	0.652	0.580	0.485	0.384
Nov	0.967	0.876	0.788	0.695	0.638	0.573	0.478	0.372
Dec	0.971	0.871	0.789	0.693	0.632	0.574	0.474	0.369

	1990	1991	1992	1993	1994	1995	1996	1997
Jan	0.361	0.249	0.199	0.179	0.151	0.114	0.083	0.053
Feb	0.353	0.242	0.193	0.171	0.144	0.107	0.078	0.049
Mar	0.339	0.237	0.189	0.167	0.141	0.102	0.073	0.046
Apr	0.300	0.222	0.171	0.156	0.128	0.091	0.066	0.040
May	0.288	0.218	0.167	0.152	0.124	0.087	0.063	0.036
Jun	0.283	0.213	0.167	0.153	0.124	0.085	0.063	0.032
Jul	0.282	0.215	0.171	0.156	0.129	0.091	0.067	0.032
Aug	0.269	0.213	0.171	0.151	0.124	0.085	0.062	0.026
Sep	0.258	0.208	0.166	0.146	0.121	0.080	0.057	0.021
Oct	0.248	0.204	0.162	0.147	0.120	0.085	0.057	0.019
Nov	0.251	0.199	0.164	0.148	0.119	0.085	0.057	0.019
Dec	0.252	0.198	0.168	0.146	0.114	0.079	0.053	0.016

	1998
Jan	0.019
Feb	0.014
Mar	0.011
Apr	

Indexation Allowance for companies

If you are a company you pay tax on chargeable gains as Corporation Tax. Indexation Allowance is available on all disposals and applies for the whole period of ownership up to and including the month in which you dispose of the asset.

Rates and Allowances - Corporation Tax

Rates for financial years starting on 1 April				
	2006	2007	2008	2009
Small Companies Rate*	19%	20%*	21%*	21%*
Small Companies Rate can be claimed by qualifying companies with profits at a rate not exceeding	£300,000	£300,000	£300,000	£300,000
Marginal Small Companies Relief Lower Limit	£300,000	£300,000	£300,000	£300,000
Marginal Small Companies Relief Upper Limit	£1,500,000	£1,500,000	£1,500,000	£1,500,000
Marginal Small Company Relief (MSCR) Fraction	11/400	1/40	7/400	7/400
Main rate of Corporation Tax	30%	30%	28%*	28%*
Special rate for unit trusts and open - ended investment companies	20%	20%	20%	20%

The main rate of Corporation Tax applies when profits (including ring fence profits) are at a rate exceeding £1,500,000, or where there is no claim to another rate, or where another rate does not apply.

Budget 2007 announced a staged increase in the small companies rate of Corporation Tax from 19 per cent to 20 per cent from April 2007, 21 per cent from April 2008 and 22 per cent from April 2009. However, the increase from 21 per cent to 22 per cent from April 2009 has been deferred until April 2010. This deferral was announced by the Chancellor in his November 2008 Pre-Budget Report and will apply from 1 April 2009.

* For companies with ring fence profits the small companies' rate of tax on those profits remains at 19 per cent and the MSCR fraction 11/400 for financial years starting 1 April 2007, 2008 and 2009, and the main rate 30 per cent for financial years starting on 1 April 2008 and 2009. Ring fence profits mean the income and gains from oil extraction activities or oil rights in the UK and UK Continental Shelf.

Rates and allowances - National Insurance contributions

National Insurance - rates and allowances			
£ per week	2007-08	2008-09	2009-10
Lower earnings limit, primary Class 1	£87	£90	£95
Upper earnings limit, primary Class 1	£670	£770	£844
Upper accruals point	N/A	N/A	£770
Primary threshold	£100	£105	£110
Secondary threshold	£100	£105	£110
Employees' primary Class 1 rate between primary threshold and upper earnings limit	11%	11%	11%
Employees' primary Class 1 rate above upper earnings limit	1%	1%	1%
Employees' contracted-out rebate	1.6%	1.6%	1.6%
Married women's reduced rate between primary threshold and upper earnings limit	4.85%	4.85%	4.85%
Married women's rate above upper earnings limit	1%	1%	1%
Employers' secondary Class 1 rate above secondary threshold	12.8%	12.8%	12.8%
Employers' contracted-out rebate, salary-related schemes	3.7%	3.7%	3.7%
Employers' contracted-out rebate, money-purchase schemes	1.4%	1.4%	1.4%
Class 2 rate	£2.20	£2.30	£2.40
Class 2 small earnings exception	£4,635 per year	£4,825 per year	£5,075 per year
Special Class 2 rate for share fishermen	£2.85	£2.95	£3.05
Special Class 2 rate for volunteer development workers	£4.35	£4.50	£4.75
Class 3 rate	£7.80	£8.10	£12.05
Class 4 lower profits limit	£5,225 per year	£5,435 per year	£5,715 per year
Class 4 upper profits limit	£34,840 per year	£40,040 per year	£43,875 per year
Class 4 rate between lower profits limit and upper profits limit	8%	8%	8%
Class 4 rate above upper profits limit	1%	1%	1%

Class 1A NIC's payable in July 2008 for benefits provided in the 2007-08 tax year are due at 12.8%