

Main Income Tax Rates and Allowances – 2008/09

Personal allowance	£ 5,435
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Age allowances (based on age at end of tax year)

Single person (age 65-74)	9,030
Single person (75 and over)	9,180
Married couple (at least one spouse born before 6 April 1935)	6,535 *
Married couple (at least one spouse aged 75 or over)	6,625 *
Minimum married couple allowance	2,540 *

Personal age allowances are reduced by £1 for every £2 of income over £21,800 (but not below level of minimum personal allowances).

* Relief is restricted to 10%.

Income tax rates

Income taxed at 20%, first	36,000 †
Income taxed at 40%, over	36,000 +

† Dividends taxed at 10%, savings income at 20%. There is a new 10% starting rate for savings income only with a limit of £2,320. If an individual's taxable non-savings income is above this limit then the 10% savings rate will not be applicable.

+ Dividends are taxed at 32.5%, savings income at 40%.

Notes

- 1) Rental income is taxed at the investor's appropriate marginal rate.
- 2) The 10% tax deducted from dividend income is not reclaimable by non taxpayers although a basic rate taxpayer has no further liability. A higher rate taxpayer has a total liability of 32.5% including the 10% tax credit, and therefore has a further 22.5% to pay.
- 3) Savings income includes:
 - Interest from banks and building societies.
 - Interest distributions from authorised unit trusts and Open Ended Investment Companies (OEICs).
 - Interest from gilts and other securities, including corporate bonds.
 - The interest content of purchased life annuities.
- 4) Non taxpayers are able to reclaim the 20% tax deducted from savings income. Basic rate taxpayers have no further liability and higher rate taxpayers have to pay an extra 20% on the gross interest received.

Company car benefits

Since April 2002, the taxable benefit of a company car has been based upon the vehicle's cost price, multiplied by a percentage based upon its CO₂ emissions.

A new fuel benefit charge has been introduced with effect from April 2003, which applies where an employer provides free fuel for private use. In a similar way to the company car benefit charge, the taxable benefit is linked directly to the CO₂ emissions of the company car.

Personal retirement provision

Tax relief is available in respect of personal contributions made to a registered pension scheme provided the individual is a relevant UK individual for the tax year in question.

The maximum amount of contribution that qualifies for annual tax relief is the greater of:

- The basic amount – currently set at £3,600, and
- 100% of the individuals relevant UK earnings chargeable to income tax

The limits are cumulative across all pension schemes rather than relating to one individual scheme.

In addition to the personal contribution limit each individual also has an annual allowance limit encompassing all pension contributions made in the tax year on behalf of the individual. The annual allowance for 2008/09 is set at £235,000 and increases in subsequent years as shown below.

Once contributions paid exceed the annual allowance then the individual becomes subject to a benefit in kind tax charge on the excess.

Annual Allowance for future years

2009/10	£245,000
2010/11	£255,000

National insurance contributions

Class 1 (Employees)

Not contracted out of State Second Pension (S2P) (rates based on total earnings)

Weekly earnings	Employee rate
Below £105*	Nil
£105-£770	11%
£770+	1% on excess

Weekly earnings	Employer rate
Below £105	Nil
Over £105	12.8%

Contracted out of State Second Pension (S2P)

Reduction on weekly income £105-£770

Employer rate reduction

- Salary-related scheme 3.7%
- Money-purchase scheme 1.4%
- Employee rate reduction 1.6%

Married Women

The reduced class 1 contributions payable by certain married women and widows is 4.85% of earnings between £90–£770 per week and 1% on the earnings in excess of this amount.

Class 1A

Generally, the employer rate on all benefits in kind is 12.8%.

Class 2

Self-employed

Flat rate £2.30 per week
If earnings over £4,825 per annum

Class 4

Self-employed

8% on profits between £5,435-£40,040 per annum
1% on profits in excess of this amount.

Class 3

Voluntary

Flat rate £8.10 per week

** Although the lower earnings limit is £90 per week, contributions are not required until income exceeds £105 per week, the primary threshold.*

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