

Income Tax and National Insurance



Blackstone Moregate
Independent Financial Advisors

► The Basic Rate income tax band for 2011/12 is reduced by £2,400, from £37,400 to £35,000:

Basic Rate	Up to £35,000	20%
Higher Rate	£35,000 to £150,000	40%
Additional Rate	Over £150,000	50%

There is a starting rate of £2,560 (an increase of £120 from the 2010/11 level of £2,440) but this applies for savings income only. If an individual's taxable non-savings income exceeds the starting rate limit, it will not be available for savings income.

There will be a further reduction in the basic rate band from 6th April 2012 of £630 to £34,370.

A special rate of 42.5% applies to dividends included in total income where this exceeds £150,000. This gives an effective rate of 36.11% on the net dividend, compared to 25% for incomes between £35,000 and £150,000 and Nil for basic rate taxpayers.

► Personal Allowances

The standard personal allowances are increased by £1,000 to £7,475 and the aim is still to increase it eventually to £10,000, as promised last year.

	2010/11	2011/12	Increase
Personal allowance	£6,475	£7,475	£1,000
Age allowance – up to age 75	£9,490	£9,490	£ -
Age allowance – 75 and over	£9,640	£10,090	£450



Blackstone Franks' Reaction:

Mr Osborne says this means that in just 10 months the coalition has taken 1.1 million low paid people out of tax altogether. We are puzzled who these people are. With the national minimum wage at £5.93 an hour anyone working for more than 24 _ hours for a 52 week year will earn over £7,475. And that is before the national minimum wage increases next October, which presumably will bring many of that 1.1 million back into the tax system.

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Income Tax and NICs Reform

The government has announced that it will consult on the options, stages and timing of reforms to integrate the operation of income tax and National Insurance contributions (NICs). In exploring the government's aim is to remove distortions created by the tax system, reduce burdens on business and improve fairness for individuals. However, it recognises that any change will be complex and involve a wide range of policy and implementation issues. A consultation document will be published later this year setting out the differences in the current income tax and National Insurance systems, and options to address these. The government will maintain the contributory principle and reflect this in any changes it brings forward. The government will not extend NICs to individuals above State pension age or to other forms of income such as pensions, savings and dividends.



Blackstone Franks' Reaction:

Everyone seems very excited about this but we ourselves are very sceptical that it will produce a real simplification. Most practitioners have been saying for years that the two should be merged, but successive governments have refused to contemplate this, probably because it is politically inconvenient to tell people that they are taxed at only 20%, whereas they are really taxed at 31%.

Our scepticism is based on the starting point that the contributory principle must be retained. Nowadays the only benefit based on actual contributions (rather than number of contributions) is the State second pension, and the government want to scrap that. Retaining that principle seems to us to prevent a merger of the two taxes – OK if you are a politician you can pretend that NI is an insurance premium not a tax but the reality is that NI contributions go nowhere near funding State pensions plus the NHS. As employers have to deduct both PAYE and NIC the “operation” of the taxes has already been integrated. All that remains is for the two taxes to be calculated under identical rules. The previous government has already done most of that so there does not seem to be a lot of scope for further changes.

National Insurance

From the 2012/13 tax year the Consumer Prices Index (CPI) is to replace the Retail Prices Index (RPI) as the default indexation for all National Insurance contributions rates, limits and thresholds:

- Class 1 lower earnings limit and primary threshold
- Class 2 small earnings exception
- Class 4 lower profits limit; and
- Rates of Class 2 and 3

*This article has been written by our Tax Partner **Robert Maas of Blackstone Franks Chartered Accountants.** For an in depth summary you can download his detailed budget booklet at www.blackstonemoregate.com/publications/*