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Income Tax Personal Allowance

Increase announced to £11,000 from April 2017

The Chancellor raised the Income Tax Personal Allowance once more above the expected rate of inflation, with a further increase announced to £10,800 in 2016/17 and £11,000 in 2017/18. The personal allowance will have increased by almost 30% above the rate of inflation in this parliament. This will be welcome news for many and will take even more people out of the income tax system altogether.

Mr Osborne confirmed the personal allowance would rise from £10,000 to its current level of £10,600 from April this year as planned, and means the typical taxpayer is £900 a year better off.

He also announced the threshold at which people pay the higher rate of income tax will rise from £42,385 this year to £43,000 by 2017/18.

The changes to the higher-rate tax threshold announced will cost the Exchequer £960 million in 2016/17, £1.48 billion in 2017/18, £1.585 billion in 2018/19 and £1.68 billion in 2019/20.

Mr Osborne said: 'For the first time in seven years, the threshold at which people pay the higher tax rate will rise not just with inflation, but above inflation.'

The rise in personal allowance will mean tax cuts for 27 million people, making the basic-rate taxpayer £80 a year better off and saving £172 a year to those paying the higher tax rate, according to Treasury calculations. Because the increase in the personal allowance is not offset by a reduction in the 40p threshold, higher-rate taxpayers benefit in full from the announcement. It also means a boost to the tax-free amount people can draw from their pensions.

Mr Osborne also announced that the transferable tax allowance for married couples is to rise to £11,100 by 2017/18. The marriage allowance only applies to couples with one basic-rate taxpayer and the other earning less than the personal allowance. It enables one spouse or registered civil partner to transfer some of their tax-free personal allowance to the other.

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from, taxation are subject to change. Tax treatment is based on individual circumstances and may be subject to change in the future. Although endeavours have been made to provide accurate and timely information, Gale and Phillipson cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.

ARE YOUR FINANCIAL PLANS STILL ON TRACK AFTER BUDGET 2015?

There may have been a number of key announcements in Budget 2015 that will impact on your financial plans. If you would like to review your current situation to ensure that your plans are still on track, please contact us.