

Tax Advice and Controversy Client Service Group

To: Our Clients and Friends

April 2009

NEW 50% TOP RATE OF INCOME TAX IN THE UNITED KINGDOM

In the Budget on April 22, the Government announced the introduction of a new top rate of income tax of 50%, on taxable income in excess of £150,000 in a tax year. This change will take effect from 6 April 2010.

The announcement represents both an acceleration and a toughening up of certain of the changes to income tax and social security contributions, which were first announced last November.

For individuals who are resident but not domiciled in the United Kingdom and who are taxed on the "remittance" basis, it should be remembered that this rate will not apply to their worldwide (non-UK) income, other than to the extent it is remitted and becomes subject to tax in the UK. The category into which employment income falls - UK or non-UK related - can in particular be important in this context.

Background

The current top rate of income tax in the United Kingdom is 40%. UK employees also normally pay social security contributions - called national insurance contributions (NICs) - on their employment income. Such employee NICs are charged on a tranche of the employee's earnings from employment at a rate of 11%, with earnings over and above an annual threshold (currently around £44,000) charged to NICs at a rate of 1%. Employers are also liable, quite separately, to pay NICs. This is broadly calculated on the employee's gross salary or earnings from employment, and charged at 12.8%. On a gross salary of £100,000, the employer's NIC liability is around £12,100.

Income tax increases from 6 April 2010

- A new 50% "top rate" of income tax will apply to taxable income (other than dividend income) above £150,000 in a tax year.

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- Where an individual has dividend income, in addition to other taxable income of at least £150,000, that net dividend income will be taxed at a new effective rate of just over 36% (current effective rate is 25%).
- Individuals with "adjusted net income" in excess of £100,000 in a tax year will suffer a restriction in the amount of the "personal allowance" (the personal allowance, to which all individuals are entitled, provides an amount of tax free income each year - currently £6,475). The amount of the personal allowance will be reduced by £1 for every £2 of such income above £100,000.

Pension contribution restrictions and NIC increases from 6 April 2011

- A new rule will also apply to ensure that for those with taxable income over £150,000 in a tax year, tax relief for pension contributions will be restricted; from that level of income, the value of pension tax relief will be tapered down until it is 20% for those with incomes over £180,000. This will replace the current rule whereby relief on contributions is secured at up to the top rate of tax paid by the individual. Anti-forestalling provisions will be enacted to prevent, broadly, contributions made prior to 6 April 2011 (other than the continuation of existing, regular contributions), from securing pension tax relief at rates higher than 20%.
- A similar rule is proposed to restrict the value of contributions paid by the employer into a pension scheme, for the benefit of employees with taxable income in excess of £150,000 - to be achieved by treating relevant contributions as a taxable benefit in the hands of the employee.
- The 11% and 1% rates of employee NIC liability will, as announced in November 2008, increase to 11.5% and 1.5% respectively.
- The 12.8% employer's NIC liability will, again as announced in November 2008, increase to 13.3%.

For additional information please contact a member of Bryan Cave's [Tax Advice and Controversy Client Service Group](#) or

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