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WARNING:



Allowance cuts will be earlier and deeper

Nicola York - 23-Apr-2009

The income tax personal allowance will be restricted for people with incomes over £100,000 faster than previously proposed.

This was not originally proposed to come in until 2011 and would have been a two-stage withdrawal, as announced in Chancellor Alistair Darling's pre-Budget report in November last year.

But Wednesday's Budget revealed that the personal allowance will now be reduced from next April at a rate of £1 for every £2 earned over £100,000 until it is completely withdrawn.

Hargreaves Lansdown head of pensions research Tom McPhail says that, as a result, people earning between £100,000 and £112,950 will suffer an effective tax rate of 60 per cent.

Worldwide Financial Planning IFA Nick McBreen says: "I think it is unlikely to generate any significant increase in tax revenue to the Treasury but, by doing it, it has communicated completely the wrong message to the business community."

"It is targeting the wealth creators and if you want to kickstart the economy, the last thing you want to do is beat people around the head."

Addi Wealth director Anna Sofat says: "All round, it will make the higher-rate taxpayer less well off. I understand why they have done it but I wish they had done it in a straightforward and reasonable way. £100,000 is not a great deal of money."

Standard Life head of pensions policy John Lawson says: "This will be an opportunity to gain tax relief rates of up to 61 per cent by sacrificing salary and protecting the personal allowance."

"However, it now means anyone earning more than about £113,500 will now lose their whole personal allowance. Under previous plans, you would not have lost your whole allowance until you earned £146,500."



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