



Budget 2012

A change in age-related personal allowances

Dubbed a "granny tax" on Twitter, the most significantly affected will be those who reach 65 just after April 2013. They will not receive the tax-free allowance they might have expected. They will get a personal allowance of £9,205. In contrast, someone who turns 65 just before April 2013 will get a personal allowance of £10,500.

The change in age-related personal allowances - the amount of income that is tax-free - will save the government £1bn by 2015. HM Revenue and Customs (HMRC) says this will bring an extra 230,000 into the income tax system. For many, this will mean having to fill out a self-assessment tax form every year.

It will mean that millions of people will not be as protected from tax as they expected to be - which will affect their financial planning as they approach retirement.

The Chancellor George Osborne announced a change in age-related personal allowances, the amount of income that is tax-free and is forecast to save the government £1bn by 2015. It will mean that millions of people will not be as protected from tax as they expected to be, which may affect their financial planning as they approach retirement.

Personal allowance

A personal allowance is the first slice of income that anyone earns that is tax-free. Any amount earned above this level is subject to tax at various bands. So, if you are aged under 65, the first £8,105 of your income will be tax-free from this April. This will change to the first £9,205 in the 2013/14 financial year.

If you are aged 65 to 74, then you get a bit more of an allowance. The first

£10,500 is tax-free from April. If you are aged 75 and over, then the personal allowance is £10,660 from April.

Taxable income

However, this extra allowance is gradually withdrawn from those pensioners with a taxable income of between about £24,000 and about £29,000. So pensioners who earn more than this do not get the extra benefit.

And anyone with an income of more than £100,000 has all their personal allowance gradually withdrawn, regardless of age.

Significant measures

Mr Osborne announced two significant measures in the Budget. The first is that, while the personal allowance for the under 65s will go up again in April 2013, the allowance for those aged 65 and

over will be frozen at the same levels as 2012/13.

Secondly, anyone who turns 65 after 5 April, 2013, will not get an extra allowance at all. They will benefit from the same personal allowance as the under-65s.

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